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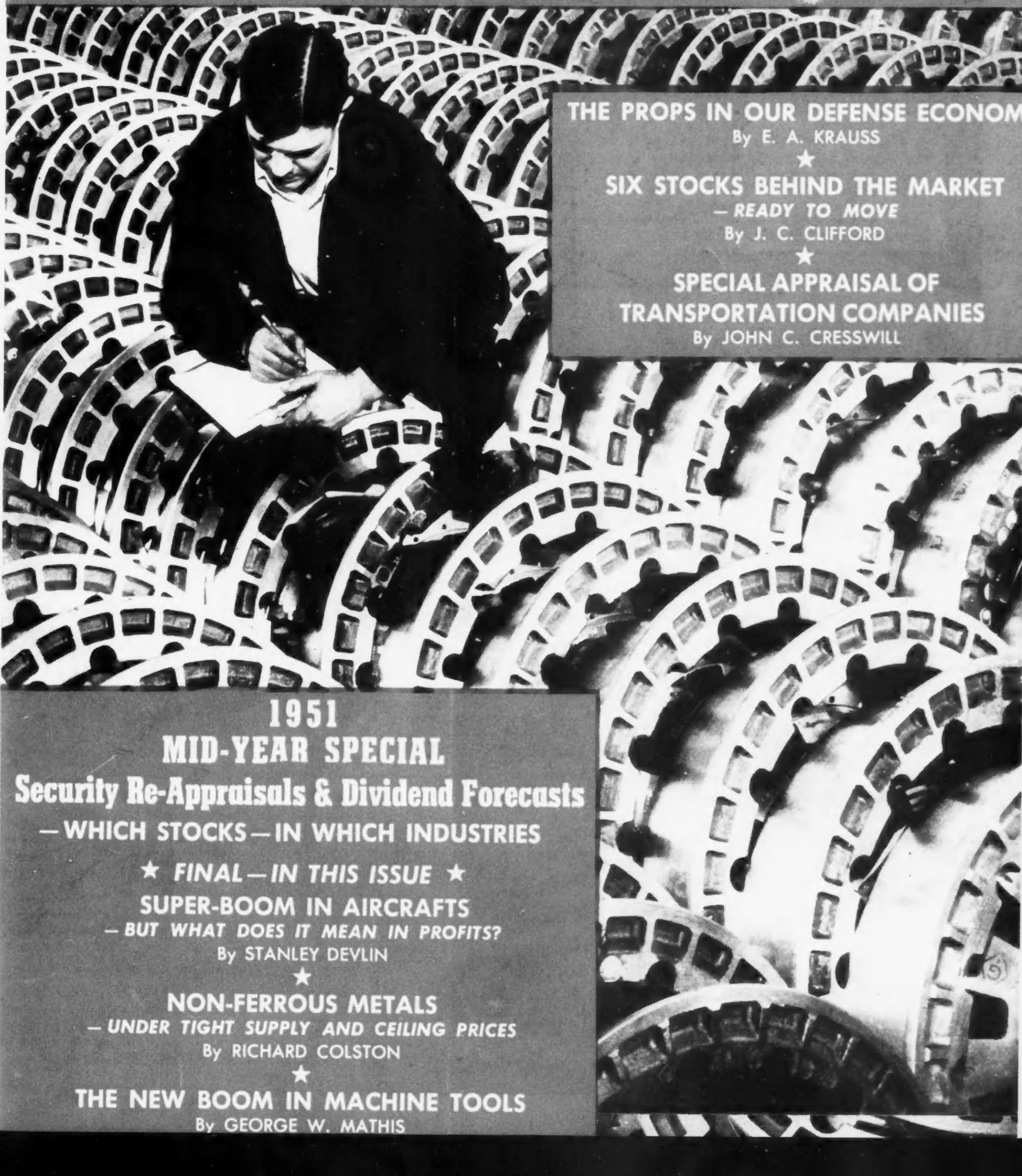

THE PROPS IN OUR DEFENSE ECONOM[Y]
By E. A. KRAUSS

★

SIX STOCKS BEHIND THE MARKET
— READY TO MOVE
By J. C. CLIFFORD

★

SPECIAL APPRAISAL OF TRANSPORTATION COMPANIES
By JOHN C. CRESSWILL

1951
MID-YEAR SPECIAL
Security Re-Appraisals & Dividend Forecasts
—WHICH STOCKS—IN WHICH INDUSTRIES

★ *FINAL—IN THIS ISSUE* ★

SUPER-BOOM IN AIRCRAFTS
— BUT WHAT DOES IT MEAN IN PROFITS?
By STANLEY DEVLIN

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NON-FERROUS METALS
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THE NEW BOOM IN MACHINE TOOLS
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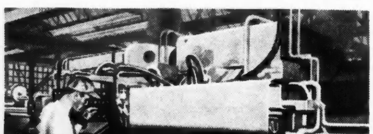

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CONTENTS

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POWER IN A PIPE...
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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*

The Trend of Events

A DISAPPOINTING SPEECH . . . Coming at a time when a new tax bill is about to go on the statute books, the supercilious tone of the President's speech dealing with critics of the Administration's spending policies must strike one as highly disappointing. In some ways, it was a shocking speech, if only because of its flippancy and the distortions underlying it. There is much that might have been said in justification of the defense program but there certainly was no need to deal sarcastically, even insultingly, with those who advocate a sense of realism and responsibility in testing expenditures against standards of necessity and reasonableness.

The attitude displayed readily explains the difficulty of the task of conscientious legislators seeking justified economies in Government spending and arms outlays. It is all the more discouraging since it comes on top of accumulated evidence that waste persists in the Federal Government. To say that certain types of spending cannot even come under scrutiny is hardly a convincing reply to critics; it looks more like evasion.

In view of this, the President's speech may well backfire politically. It may be difficult to cut the budget and keep political fences built up, but the number of citizens affected by higher taxes is considerably larger in political influence than those relatively few who benefit from governmental favors that could be cut. Sooner or later, there will be need to pull away from the attitude of indifference to the fact that the saturation point in taxes is rapidly being reached. Once it is reached, and that point isn't far, the problem will be how to raise future revenues—and the Government then will need the public's fullest understanding and cooperation.

The longer profligate spending continues, the sooner the day when it will become painfully apparent that merely increasing tax rates won't bring in more revenues and actually may bring in less. The point of diminishing returns is close at hand.

Congress, it seems, has the main responsibility to eliminate waste, and let no one say there isn't any. Unfortunately the majority in both parties are afraid to antagonize the pressure groups which are interested in maintaining a flow of appropriations to certain privileged groups, or certain sections of the country. Since Congress is unable, or unwilling, to do its job in this respect, the only leadership that can be expected to deal with the situation must be national, that is the President who must be accountable for stringency and strictness in budgetary matters. Unfortunately he has not supported the economy drive; instead he has assailed those who try to economize. Little wonder that there is a growing feeling not only of indignation but of downright despair.

Perhaps the President has sensed this. Perhaps this is why he tells us that we are better off than we were ever before. Perhaps this is why he minimizes and ridicules predictions of financial disaster. Perhaps this is why he says, in essence: Why worry?

But we *should* worry about the prospect of confiscatory

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

taxes, of a never-ending succession of Government deficits, of a continuously cheaper dollar. It's a frightening prospect, and it's just possible that it is worrying enough people to make the President notice it and offer soothing remarks. Perhaps he is even worried a bit himself. But we greatly doubt whether his talk has allayed the widespread apprehensions. More likely it has increased them. The obvious reaction must be that the critics of the Administration's spending policy must have a good case if the President goes to such lengths in an effort to silence them.

BETTER LATE THAN NEVER . . . We were rather surprised the other day to read that Secretary of Agriculture Brannan thinks he detects a growing hostility among urban dwellers to the Government's farm price support program, and he fears this hostility may threaten the whole program. How right Mr. Brannan is. But his discovery is hardly startling. Most everybody has known about this for quite some time. But—better late than never. We were very much afraid it would be "never."

Lots of things are wrong with the farm program and we have pointed them out repeatedly and, as we thought, objectively. But one of its worst faults is that it is virtually bound to create the hostility which Mr. Brannan suddenly detects and deplores. We would add, however, that if there is hostility, it is not so much of group against group but simply against an inefficient and unjustified farm program which has cost the nation dearly in the past and has been one of the main causes of the inflationary spiral more recently.

Mr. Brannan should take a good look at what the farm program has done to raise the food cost of the urban dweller, beset by taxes and inflation. Even now, at the first sign of some relief from high food prices, the consumer finds the Government—supposedly ready to fight high prices everywhere—stepping in to keep farm prices up. Mr. Brannan should remember the "potato scadal," the "butter scandal," etc., which aroused nationwide indignation not so many months ago. Considering all this, resentment is natural. The only surprise is that it took Mr. Brannon so long to detect it.

Unfortunately, the remedy he suggests is equally bad. He proposes that farmers should try to overcome this hostility by convincing urban workers that farmers are concerned with their problems too. Could this mean that he urges a stronger political coalition between farmers and labor? It could be, because that coalition shows signs of getting brittle. Yet any such course would merely be tantamount to a race to see who will get the most.

The very fact that the farm program has led to hostility in itself proves that it is basically wrong and needs an overhauling. This thought is shared by many farmers and farm group leaders who do not like the program that profits them at public expense. The thing to do is to take the pork barrel out of it.

HARDY PERENNIAL . . . There will be renewed pressure on the International Monetary Fund to permit newly mined gold to be sold at above the statutory price of $35 an ounce and some day perhaps that pressure may become too strong to be resisted. Right now, the governors of the Fund give every indication that they are chary of the gold issue and will try to avoid any formal discussion of this touchy problem. The question will be left to the directors of the Fund who will meet next week after the present annual governors meeting is terminated.

At that time, the directors will take up a staff report on premium gold sales, containing also suggestions of steps which the Fund could take to limit them. The feeling however is that since it would be very difficult to place any effective curbs on such premium sales, the best policy may be to permit some latitude in these sales—as already is being done—in the hope that competition will keep the price down at least to present levels. This view seems widely shared.

As it is, premium gold sales are not as serious a question now as some time ago but that does not mean that it could not become one again. Pressure to loosen up restrictions is inexorable. Southern Rhodesia for instance wants the same privilege with respect to sales of newly mined gold for industrial purposes as is now enjoyed by its neighbor, the Union of South Africa. Everyone knows of course that much of the "industrial gold" sold at premium prices has ultimately found its way into gold hoards or speculators' hands.

This is probably not the time for a general upward revision of the statutory gold price. But such a time will come, we think, if inflation is allowed to continue with resultant further depreciation of the value of the dollar. It is unthinkable that such depreciation can indefinitely be prevented from finding expression in the price for gold.

BOND vs. STOCK YIELDS . . . The average yield on high-grade bonds is now about 3% and the yield on common stocks about 6.25%. The difference between the two represents one of the chief reasons why so many investors nowadays prefer stocks to bonds, a radical change from former times when bonds were the chief vehicle for investment.

It is obvious that the less dollars are worth in purchasing power, the more of them the individual needs to supplement his income, especially if he is in the medium or higher income brackets, where taxes take the heaviest toll. Since the investor must pay taxes on interest as well as dividends, he is going to try to obtain more dollars for every dollar invested, which is to say, that he is going to invest in stocks rather than bonds.

For example, let us assume that the individual in the medium brackets pays a minimum tax of 35% on a $1000 annual income from bonds. His net return in that case is $650. Suppose, instead, he invests in stocks from which he secures a $2000 income. Even if he pays a 45% tax on the higher income, the amount remaining will be $1100, far in excess of what he obtains from bonds.

The desire to secure a higher income is one of the paramount factors operating in the stock market. The threat of inflation works in several ways. Some people think of stocks, especially those representing raw materials, as inflation "hedges," but we venture to think that a factor of much greater importance in recent years has been the need of people to secure as large an income as possible, both as a means of providing for the higher cost of living and, also, to offset the growing pressure of high taxes.

As I See It!

BY ROBERT GUISE

THE COMING SHOWDOWN

The San Francisco conference gave us a peace treaty but by no means peace. Gromyko's fiasco in fact seems to point to a showdown that may not be too long in coming. That's why the next few weeks may be of crucial importance, perhaps bringing the answer to the long-smouldering question of war or peace.

With the Japanese peace treaty concluded and a German arrangement in the offing, the West is moving to consolidate its position in both Europe and Asia and the Kremlin can hardly be happy about it. While it must find itself in a serious dilemma, it is unlikely that it will swallow its defeat and merely sulk. Gromyko has said that Russia's answer to the San Francisco conference will not come in San Francisco. But if there is to be an answer, the time for it is growing short, and Russia must know it. The Kremlin will have to choose between substantial concessions in continuation of its drive to divide and lull the free world, or greater force with the inherent risk of precipitating World War III.

"PERHAPS HE REALIZES THE RESULT"

Loring in the Evening Bulletin

The simple fact is not only that Russian diplomacy and propaganda has suffered a painful defeat but that western counter-measures against Russian aggression are beginning to hit home. With conclusion of a Japanese treaty and projected inclusion of West Germany into the West's defense bulwark, not to mention our own rearming, the world power balance is rapidly changing against Russia and she may well decide that the situation may require action, or at least a big gamble that could readily lead to ever-widening conflict. As things stand now, the contentions between East and West will henceforth move from secondary to major issues, and inherent risks are bound to grow proportionately.

Russia's answer could well come in Korea where the communists now have a larger build-up than ever before. If so, it would not surprise. But the danger is that it may lead to a sequence of events that would be difficult to limit or control. The Kremlin must be aware of this just as it will probably feel that the new initiative shown by the free world will compel it to review its tactics if not its grand strategy. The communists must know that if they stage another bloody offensive in Korea, they run the risk of punishment with everything we got. Large segments of public opinion will demand this and the clamor for such action may become well nigh irresistible.

Yet the chances are that the communists, when weighing the alternative between retreat and war, may shrink from the latter choice. They may reason, and correctly so, that we are becoming too strong for them already. Such reasoning would certainly find support in the tougher attitude our Government has latterly taken against them. While they may sorely want to keep us from filling the power vacuum created by Japan's defeat, they may be content to try to do this with other measures. Our guess is they will, short of all-out war.

It would be folly to assume that the Kremlin may suddenly become "reasonable". It may choose a course of harassment and threats, with the sinister design of hostile moves elsewhere, yet with the danger of all-out attack diminishing in direct proportion to our own growing strength. If so, the grand showdown may come at another time or another place, for even should Russia retreat, she will not go to sleep. All the more reason that for us to build and maintain our strength.

We have been doing that for some time, not just by pushing rearmament but by building "positions of strength" and in so doing, we took progressively greater risks. The question is whether the Soviets will tolerate these positions of strength which they know will eventually put them in their place, or whether they will try to smash them while they think there may still be a chance of success. The next weeks or months may tell.

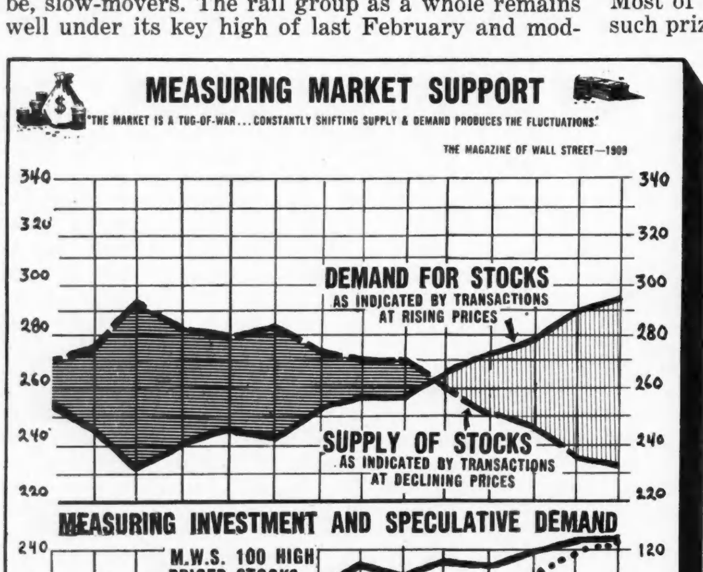
New Market Leaders in the Making

Average industrial stock prices reached new high ground during the last fortnight. The market has become more speculative, increasing the potentiality for reaction even though the time factor remains uncertain. Some groups and issues are high enough to justify partial realizing, as detailed below, where particularly large profits exist.

By A. T. MILLER

Average stock prices rose further over the last fortnight, under continuing leadership of the industrial list, which attained another new high for the 1949-1951 cycle. Utilities edged up enough, following two weeks or so of correction in August, to duplicate their early-August high, which was a new "major" high by a slight margin. On average, these stocks now stand less than 1½ points above their 1950 high and roughly 4 points above their 1949 high. Primarily income stocks, there is, of course, every reason why they are, and should continue to be, slow-movers. The rail group as a whole remains well under its key high of last February and moderately under its rally high of last May. Whether or not it manages to work somewhat higher, which requires a further spread of speculative tendencies, there is nothing in the industry's position or earnings-dividend outlook to support any basic change for the better in the market status of typical issues.

In general, it has become less of an investment-dominated market in recent weeks. There has been increasing speculation, even though mainly on a cash basis rather than on margin, in low-priced stocks and in run-of-the-mill cyclical industrials. Most of the previous pace-setting groups, including such prized ones as chemicals, oils and ethical drugs, have at least slowed down in the rate of advance. This should not be surprising, since they are in all-time high ground and current dividend yields are no more than 4% in many instances and as low as 2% or so in some. You see the shift toward more speculative emphasis also in an expansionist tendency in average trading volume.

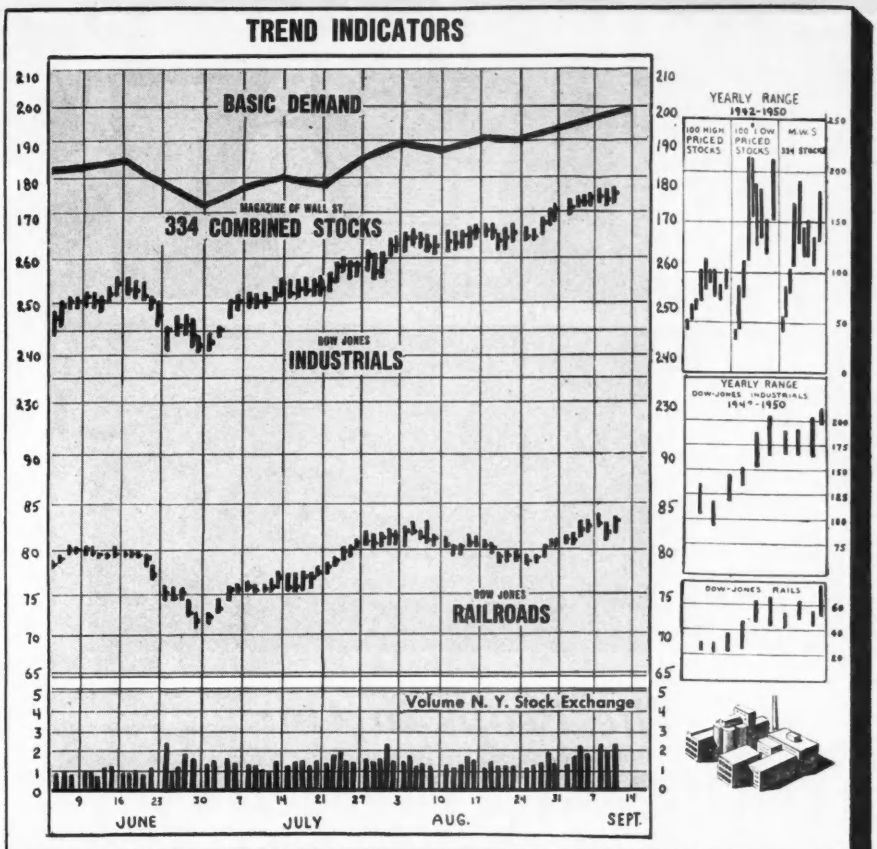


The Technical Position

It is true enough that this is exactly what was required to "keep the pot boiling"; for, as we noted earlier, it was not to be expected that a handful of exceptionally popular stock groups could carry the market. On the other hand, this more speculative phase begun, as such phases generally do, when average stock prices were far removed from anything like a bargain-counter level. The last major low (June, 1949) is nearly 27 months behind; and the composite industrial list now stands roughly 75% above it, following over ten weeks of advance, punctuated by only minor and brief corrections, since late June.

Measured against such periods as 1928-1929 or late 1945 and early 1946, it can be argued that the present speculative tempo is not extreme; and the possibility that it might well broaden further over the medium-term can be readily conceded. Nevertheless, it does foot up to progressive deterioration in the technical position of the market; and it does bring a

sizable correction nearer, although nobody can say how close it might be, for when bullishness becomes increasingly psychological, rather than calculated, the situation gets somewhat explosive either way. There is more of a tendency to "play the market"; less concentration on analytical stock values.



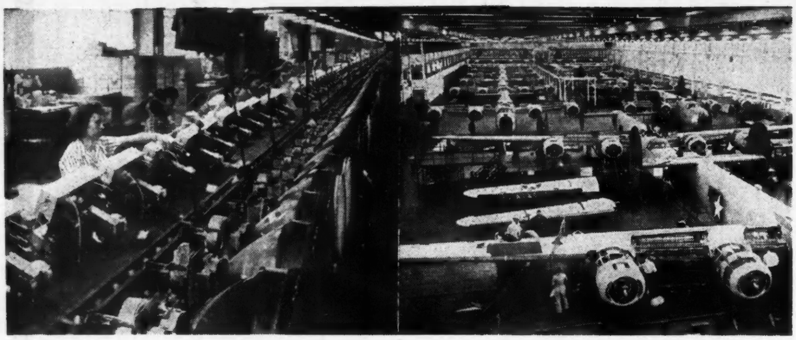
Measured in the broadest terms – not by any daily average of 30 or 50 prominent stocks–the industrial list is now close to its historic 1929 high. For a number of reasons, that does not mean proportionate, basic vulnerability. For one thing, stock prices, like prices of everything else, are expressed in depreciated dollars. Although there has not been too close a relationship in the past between the course of the stock market and that of commodity prices, when inflation becomes a more or less chronic tendency, rather than a mere cyclical variation, and when most of the depreciation is regarded as pretty firmly grafted into the economy, at least a considerable allowance therefor is properly made in measuring the level of the market. If you measure it in 1935-1939 dollars, it is more than 45% under the 1929 peak.

Prices and Yield Factor

Taken alone, of course, that proves nothing, for stocks were extremely overpriced at the 1929 high. However, it has to be added that, on the basis of current price-earnings ratios, average dividend yields and the spread between stock yields and high-grade bond yields, the general position is materially less extreme than it was at the highs of any of the last three previous major bull-market tops: 1929, 1937 or 1946. Suffice it to cite the yield factor. Representative industrial stocks yielded nearly 40% less income return than high-grade bonds at the 1929 high, roughly the same at the 1937 high and about 40% more at the 1946 high. At present the stock yield is down to around 5.7% from a 1950 top yield around 7.5%; and the spread over the bond yield is a very substantial 102%. Nevertheless, it has been progressively narrowing, for the maximum spread seen in 1950 was nearly 190%. So this argument for higher stock prices, if valid, is weakening. Assuming some further rise in the market, the spread may narrow pretty sharply, for the interim dividend level probably will decline in the fourth quarter as a result of fewer or smaller year-end extras than in the final 1950 quarter.

Every major advance differs more or less in its psychological motivation. We do not have today the "New Era" dreams of 1928-1929, nor that period's speculative bubble blown up on a monumental foundation of margin, and bank-collaterial, debt. We do not look forward, as in the 1942-1946 rise, to victory in war, peace and a catching-up boom founded on the combination of a big vacuum in civilian durable goods and an unprecedented expansion in money supply.

The armament program–without which we would probably be in a cyclical economic deflation now–assures a generally high level of business activity and record activity in the heavy industries for a time, with nobody able to guess that time regardless of the Administration's present paper plans. Looking ahead into X time, there are two apparent alternatives. One is global war. That would hit the market sharply, for it would assure a straitjacket of controls and even higher taxes than now impend. The other, which currently seems more probable, is that within another 12 months or so, the world balance of power will have been so altered by the buildup of U. S. might as to end, or greatly reduce, the global-war threat and to set up effective pressures for tapering off on arms production. Unlike the situation in World War II, we are going ahead with a very substantial, even if reduced, output of civilian durable goods, including housing; and with major expansion of over-all capacity in civilian industry. There will be no big (*Please turn to page* 690)



. . . The Props in Our . . .
DEFENSE ECONOMY

By E. A. KRAUSS

It is axiomatic that the pace of business from here on will be mainly dominated by defense spending, hence business men should acquaint themselves fully with the projected spending time table. Some of their current problems arose because many anticipated a much faster rise in military spending than actually took place during the past twelve months. Instead, such spending fell short of replacing fully the weakening props which in the past have supported our postwar boom and which, under the joint impact of consumer resistance, controls and cutbacks, gave way rather prematurely, that is before arms spending could provide an adequate offset.

A look at the inventory situation confirms this. Total business inventories are estimated in the neighborhood of $70 billion and are clearly burdensome. During the first half of this year, they have accumulated at an annual rate of $12 to $14 billion, which means that we have been overproducing at a rate almost $1 billion a month even if allowance is made for the fact that at least part of inventory accumulation has been in connection with the defense effort.

This state of affairs goes back to two basic miscalculations: (1) Arms spending expanded far more slowly than expected. (2) Civilian demand on the other hand did not keep up with production once the initial war hysteria and fear of acute shortages had been overcome. Even when this was realized, manufacturers were reluctant to reduce output by adjusting it to declining demand, partly because they saw mandatory cutbacks coming sooner or later anyway, and because they figured that anticipated gains in disposable income would readily absorb current excess supplies of finished goods once production begins to drop off.

Civilian output, particularly in hard goods, has been declining for some time and is slated for sharper cutbacks in the fourth quarter. But for the balance of the year at least, the scheduled increase in defense spending probably will not do much more than offset the decline in civilian production stemming partly from restrictions and partly from the desire to bring inventories down to more manageable levels. Some question whether it actually will be able to do that. Much depends on what the consumer will do. But at worst, it will be a transitory problem that will quickly disappear once the defense effort is in full swing.

In his Mid-Year Report, President Truman stated that the scheduled increase in security programs will raise total Government expenditures by about $28 billion, annual rate, from the first half of 1951 to the first half of 1952. The question is how this demand will be supplied, and what will be the effects. One way of supplying it is to increase overall production, hence the official objective of a 5% expansion of total output between mid-1951 and mid-1952.

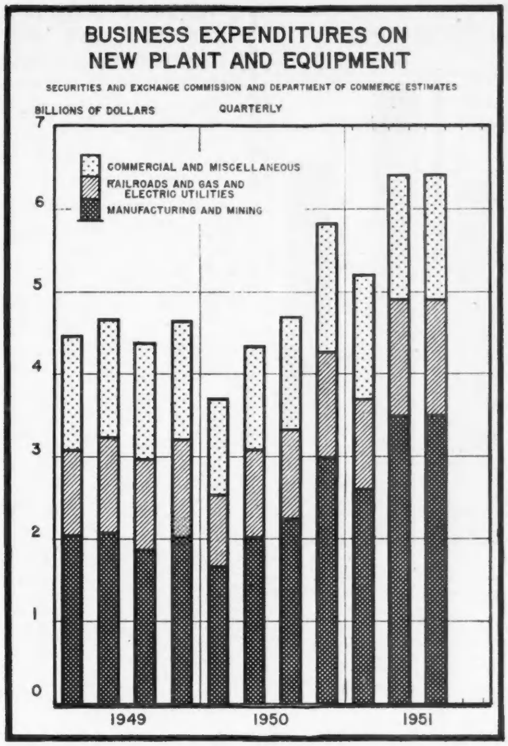
Even if such a goal can be accomplished, it would not provide all of the $28 billion of additional goods and services which the Government proposes to buy. To supply this demand would require, according to the Council of Economic Advisers, a contraction in non-defense production of between $10 and $15 billion and a corresponding diversion of resources to Government use.

No Strain in Civilian Goods Supply

In that event, there will be little reason to worry about deflation or recession. By the same token, if diversion from non-defense production will be no greater and is met largely out of inventories plus some curtailment of non-defense construction and non-essential business investment, the quantity of goods and services left for everyday consumption will in the aggregate remain fairly large. The outlook for civilian supplies in other words, will not nearly be as strained as some now assume. This particularly if consumers continue their current spending trends, a good probability barring another

interval of scare buying.

It is a safe assumption that efforts to reduce inventories will continue. The rate of private investment is declining by curtailment of new construction and, more recently, by steps to moderate non-essential business expansion. Even essential expansion programs are being scrutinized for possibilities of paring them down to eliminate undue strain and make possible the speed-up in actual arms production.



In line with this policy, proposed programs to encourage industrial expansion by rapid tax amortization benefits are being deferred. Even the essential steel expansion program will get only half of the structural steel requirements during the fourth quarter. The electric power industry, no less vital to the economy and the defense effort, must also accept a fair-sized cutback in its expansion program. The simple fact is that industrial operations now must be tailored to the supply of basic metals and this apparent necessity if affecting industrial expansion plans across the board including even vital areas such as oil and mining, apart from steel, electric power, etc.

It has been suggested, rightly or wrongly, that this decision is in part also based on realization that the original expansion program may have been too ambitious and actually not fully needed for the defense effort. At any rate it tends to retard it at a crucial stage when actual arms production is getting into stride. But regardless of motive, it may mean an ultimate sizeable drop in plant investment and thereby help bridge the production gap and alleviate the strain of stepped-up re-arming.

New Cutbacks in Hard Goods

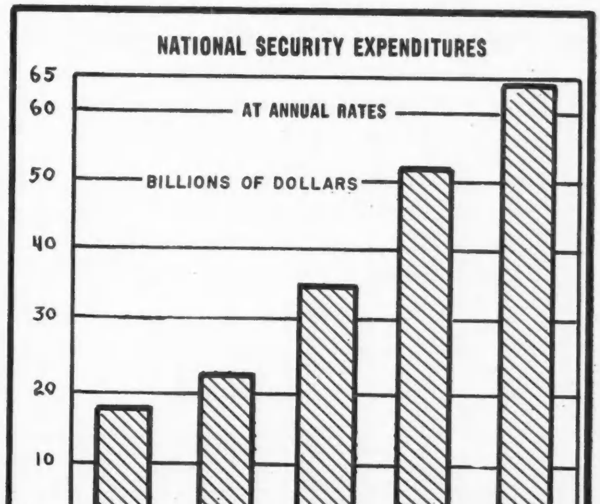
The same goal is of course also sought through drastic cutbacks of civilian goods output, mainly the hard goods lines, some of which are cut back to as low as 58% of the pre-Korean production rate. While this may not be felt too much, at least for some time, in view of lagging civilian demand, it constitutes a further aid towards achievement of balance.

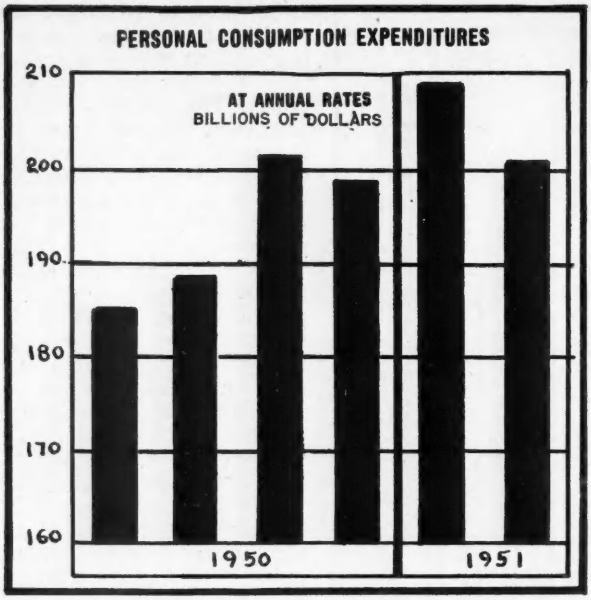
As it now looks, cutbacks in metals will reduce business investment in new plant and equipment by some $5 billion or more next year. Consumer durables have been slashed already, and will be cut back some more, rendering it probable that consumer spending will continue some $6 billion below last year's rate. Additionally, inventory accumulation, now beginning to drop, will be down more sharply and can become negative, particularly when dealers of hard goods sell out of stocks and replace them at a lower rate, as they will be forced to.

Altogether, the decline in these areas may well come close to offsetting the rise in Federal spending, particularly if present trends in consumer savings continue. The weight of the argument against more inflation at this point rests on two potentialy volatile factors, to be true—the rate of inventory accumulation and the rate of savings. But while potentially volatile and depending on events and psychology in no small degree, there are sound reasons to project savings at a high rate and inventory growth at a low one. If so, rising defense outlays and declining investment, both by business and individuals, may well balance out.

Right now, because of the combined effect of civilian cutbacks, lagging civilian demand and the slow progress in arms spending, we have something like a deflation gap instead of the much-feared inflation gap, and this deflation gap could last well into next year, always depending on the progress of defense. Even thereafter, we may have a fair measure of stability, rather than otherwise, in the economic equation which constitutes our gross national product, particularly if effective defense spending continues to lag behind schedules as it likely will. The simple fact is that such spending depends importantly on the pace of tooling up and that pace is well behind its original schedule. At least for some time, it will remain so.

At present, expenditures for military uses are running close to an annual rate of $36 billion or 11% of the gross national product. Thus we are now only spending at the rate which was supposed to be





the average for the past twelve months. The actual average during that period was considerably lower. It is one reason why there is considerable doubt whether the $56 billion defense budget for fiscal 1952 will be spent as planned.

For the fourth quarter of this year, national security expenditures are estimated to run at an annual rate of $52 billion, or at a monthly rate of $4.3 billion. For the second quarter next year, they are estimated to run at an annual rate of $64 billion or at a monthly rate of not quite $5.5 billion. By that time, actual deliveries, and that's what counts, are expected to be up from their *current* annual rate of $18 billion, or $1.5 billion monthly, to an annual rate of $48 billion or $4 billion monthly.

We have already noted how the combination of softening consumer demand and Government-imposed cutbacks (as well as voluntary cutbacks) have had an increasing impact on the props which constituted the main supports of the postwar boom.

Output of consumer hard goods has fallen far below 1950 peaks and though next winter there may perhaps be a slight lift in demand for durables, not much of a come-back is indicated. Nor should there be any serious shortages.

Another important prop, construction activity, in the aggregate has been holding up fairly well despite declining residential building due to credit restrictions. Because of a spurt in industrial construction, the total this year may not fall much below last year's, aided by the latest relaxation of restrictions on housing in defense areas. On the other hand, commercial building is due to decline fairly sharply from now on; it may be cut some 80% until at least mid-1952.

Other Basic Props

We have already dealt with trends in inventory accumulation and plant expansion, likewise two outstanding props of the postwar boom. The former are slated to decline; the latter, though currently high and running about 25% ahead of a year ago, will likewise tend to fall off henceforth in line with the policy to moderate industrial expansion.

Retail trade, another element of strength in the postwar era, while no longer booming is still fairly high despite numerous soft spots. While subject to seasonal spurts and dips, on the whole the trend will likely remain sidewise in terms of aggregate spending despite the prospect of moderately higher consumer incomes.

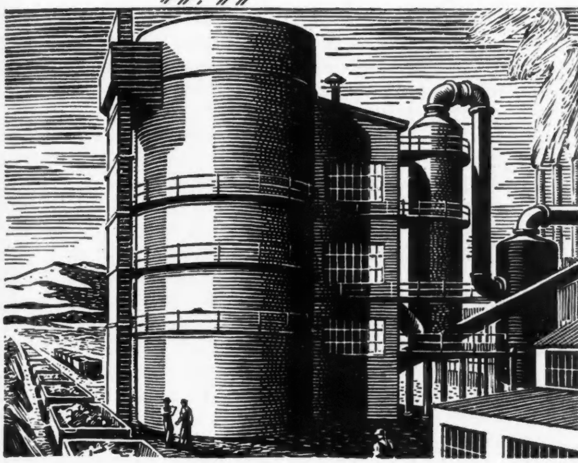
In the aggregate, and considering rising defense outlays, all this adds up to continued high economic activity, though nothing of a run-away nature. Defense alone provides a definite floor under production as well as prices, just as industry's amazing productivity, greatly underestimated over the past year, spells protection against serious pinches and severe inflationary pressures.

Right now, it is still not certain just how much military output is in sight. The big jump will come mainly in aircraft and certain "hardware" such as tanks, but there is no danger that civilian producers will be left completely out in the cold. There is a good reason for it: Even at the peak of the defense effort, there won't be enough war work to compensate for a really drastic cutback, let alone to occupy the facilities that would be idled by a complete cut-off. The prospect is still for guns and butter, both in adequate supply.

Arms vs. Civilian Production

After all, the defense effort at its peak is supposed to take no more than 20% of our gross national product. While this is a sizeable slice of the nation's output to go for unproductive purposes, it is small enough to highlight the continued importance of the civilian sector of the economy, and thereby of the props which heretofore constituted its principal supports. Any further weakening of these props, for instance because of shortages creating certain bottlenecks or by undue restrictions, could have significant implications in that they could readily create or perpetuate soft spots in industry that could go hand in hand with the defense boom and make the latter somewhat less than all-embracing. In other words, recessions within the boom—such as we have now—could continue to feature our defense-stimulated economy.

★ SIX STOCKS ★
Behind The Market
—*Ready to Move*



By J. C. CLIFFORD

Many opportunities still exist for income and appreciation, despite the current high prices for certain stock groups. At first glance, in terms of the daily averages, stocks are at levels which would seem to discourage new purchases, but actually the market is not as high as it looks, most of recent important market gains having been made in the chemicals, oils, drugs and rubbers. The rest of the market, even among industries which are doing well such as steel, has made relatively little progress.

This divergent performance has given the market a somewhat confused aspect which has made it difficult for the investor to select issues which have a better than average prospect of appreciation. Nevertheless, opportunities do exist as is shown in the accompanying description of six stocks which seem to be selling out of line with their prospects.

Some of the stocks now "selling behind the market" include a miscellaneous group representing companies in good position but which for a variety of reasons have not as yet participated in the upswing. In some cases, the company may be doing much better than its industry but the stock nevertheless remains affected by the general indifference to the group. Illinois Central, described below, is a good illustration of such a situation. In other cases, such as National Distillers, the market has not yet sufficiently appraised the new program of expansion into the chemical field and is waiting for more general recognition of the significance of these important changes. Wheeling Steel, another example, which had a good rise last year, is still far behind considering the fact that not enough attention has been paid to its growth as one of the largest earners (on a per share basis) in the entire industry.

Quite often, stocks of promise stay neglected for considerable periods because the more active investors prefer equities that are in the limelight at the moment, even though these may not be more attractive intrinsically than some others which are lagging. Whatever the reason for such disparity in market action, stocks which have genuine merit, will sooner or later come into their own. This is a situation from which the patient investor can profit. In order to be of assistance in proper selection, we give herewith a description of six stocks which appear to be behind the market, and which should in the not distant future begin to reflect their promising position in better market prices.

Illinois Central in Strong Position

Illinois Central which sold as high as 75 this year, has for months been selling from 15 to 20 points lower. This poor action, is not due to any fundamental lack of attraction, but simply because the stock has been influenced by the negative action of the rails as a group. Had they been able to show more vigor, there is little doubt that Illinois Central, with its excellent prospects, would have given a good account of itself. The present rather cheerless action of the group is too formidable an obstacle and the stock, perforce, must wait for a change in sentiment before it can assert itself.

Ten years of constructive building, physical and financial, have made Illinois Central one of the most prosperous carriers in the U. S. Contributing

Illinois Central R.R.

	1951		1950		
	Quarters				
	June	March	Dec.	Sept.	June
Gross Revenue (Mil.)	$70.0	$72.5	$80.6	$69.5	$64.8
Operating Ratio (%)	80.0	77.2	64.1	73.4	78.3
Net Income (Mil.)	$ 2.8	$ 3.8	$15.6	$ 5.9	$ 3.7
Net Profit Margin (%)	4.0	5.3	19.4	8.4	5.7
Net Per Share	$ 1.86	$ 2.62	$11.12	$ 4.22	$ 2.54

General Tire & Rubber

	1951	1950		1949
	6 Months			
	May 31	Nov. 30	May 31	Nov. 30
Net Sales (Mil.)	$85.4	$79.4	$45.9	$47.4
Net Income (Mil.)	$ 3.4	$ 6.8	$ 1.6	$ .5
Net Profit Margin (%)	4.0	8.6	3.6	1.0
Net Per Share	$ 5.48	$11.44	$ 2.44	$ .53

strongly has been the reduction in funded debt and interest charges. Once standing as high as $377 million, funded debt was cut last year to $216 million and will be down to $200 million by the end of 1951. Further benefits will be gained when the debt has been consolidated into one issue within two years, as planned. Fixed interest payments now at $10 million annually will be down to $7.5 million when the debt changes have been completed.

Steady traffic increase plus improvements to plant have brought about a strong earnings position with earnings averaging about $12 a share for the past decade. Without reference to tax refunds, earnings were over $16 a share in 1950, and will be about $12-$13 this year.

Because of debt retirement requirements and the policy of the road to amalgamate the debt as soon as possible, dividends have been held down to a modest $3 per annum. The way to a higher dividend has also been impeded by the preferred shareholder's suit for back dividends, twice rejected by the lower Federal Courts and now up before the Supreme Court. Once this obstacle has been cleared, there will be nothing in the way of a higher dividend.

Good Prospects Ahead

While Illinois Central's earnings have been off so far this year, in common with those of other carriers, the fundamentally strong position and definite prospects for large earnings place this stock in an outstanding position in its group. Prospects for the rails for the last half of the year are better, and when they start to reflect this situation, Illinois Central will be found among the leaders. At recent price of 61½, the stock yields about 5%.

General Tire & Rubber may be considered well behind the leading rubber stocks, not so much because it has failed to keep pace market-wise, but because its dynamic position has not yet been fully reflected in the price of the shares. The Big Three, U. S. Rubber, Goodrich and Goodyear, naturally attract the most attention in this group as by far the largest concerns but General Tire, though much smaller, is rapidly coming into its own and in time will attain the investment status of the others.

In recent years, aside from its rubber and tire business, the company has been expanding rapidly into a number of fields. Among the more important of these are rocket and jet propelled missiles, and radio and television broadcasting. General Tire owns 81% of the capital stock of Aerojet Engineering Corp., acquired in 1945.

Co-ordinating its activities in this field, the company has erected a large plant in California for research and production of jet-assisted rockets, rocket propulsion etc. A $6 million plant is in process of erection with sales from this source alone running at about $20 million a year, and when completed it is estimated that the potential in sales will amount to $100 million a year.

The company's activities in the radio and television fields are also important. Owning the entire stock of the Yankee Network, the only regional network in New England, the company through affiliation with CBS, ABC, Dumont, and Mutual has very large radio and television coverage. At the end of 1950, it acquired the Don Lee Radio Network. Following this purchase, the Thomas S. Lee Enterprise was taken over at an investment of about $5 million. This enabled General Tire to become the western outlet for the Mutual Broadcasting System. The combined net income of the Yankee network plus the Don Lee business will bring in about $1.5 million this fiscal year, before taxes.

Notwithstanding its great activity in these new fields, in addition to its normal tire-building business, General Tire has maintained a strong financial position with working capital at $38.8 million against $14.5 million in 1945. At that time, the stock sold in a range of 26-46 and its present price of about 47 represents a very moderate advance in view of the great progress made by the company in the intervening period. For example, earnings for 1950 were $13.88 per share and about $12 a share is estimated for 1951. At recent price, the stock is selling at only four times anticipated earning, a very low ratio indeed. Dividends have been kept at a modest rate of $3.00, which could be easily be increased.

Together with other steel shares, *Wheeling Steel* has been in a compartively narrow price range since the beginning of the year, between 33 to 43, and except for the past two or three weeks, when steel shares hardened, has been selling a 35-40 for months. Part of this comparative sluggishness has been due to the fact that the stock was digesting its gains of last year, which witnessed a two-for-one split, fol-

National Distillers Products

	1951		1950		
	Quarters				
	June	March	Dec.	Sept.	June
Net Sales (Mil.)	$64.5	$136.9	$123.8	$112.9	$89.0
Pre-Tax Margin (%)	7.6	11.1	15.3	10.4	9.1
Net Income (Mil.)	$ 2.8	$ 8.5	$ 11.1	$ 5.9	$ 5.0
Net Profit Margin (%)	4.4	6.2	8.9	5.2	5.6
Net Per Share	$ .37	$ 1.09	$ 1.43	$ .75	$ .63

Wheeling Steel Corp.

	1951		1950		
	Quarters				
	June	March	Dec.	Sept.	June
Net Sales (Mil.)	$58.8	$58.3	$50.8	$50.5	$44.2
Pre-Tax Margin (%)	24.7	24.7	20.8	24.1	18.5
Net Income (Mil.)	$ 4.7	$ 5.0	$ 4.6	$ 5.8	$ 4.6
Net Profit Margin (%)	7.9	8.5	9.0	11.0	10.4
Net Per Share	$ 3.02	$ 3.22	$ 2.95	$ 3.78	$ 2.95

lowed by a 25% stock dividend. However, the present price is quite out of line with the large earnings of the company. For the first six months, Wheeling Steel earned $6.24 per share, and it is expected that the full year's earnings may top those of 1950 when $11.59 per share was reported. Based on such expectations, the stock at 43 is selling at only about four times earnings, a rather low ratio.

In common with the rest of the steel companies, Wheeling Steel is benefiting from the immense steel demand which is likely to continue indefinitely. In a sense, the Government's needs and the general shortage of steel places these companies in a relatively sheltered position. In recent years, the company has not reported its iron ore tonnage but it is known that it obtains an ample amount from its own properties, and also is part-owner of other iron-ore interests, so that it is in a fortunate position of not being squeezed, as are so many other steel companies, by the scrap shortage.

Since 1947, an extensive modernization program has been into operation with expenditures so far at above $50 million. Another $24 million has been allocated for the period 1951-53. This has permitted benefits from plant improvement and other savings, especially from its coke ovens, which have been placed in a position where a savings of $2 million annually from this source alone can be affected.

Wheeling Steel is a leader in the lighter steel field with its own fabricating subsidiaries consuming a large portion of the company's output. This permits operations above the trade average. Taxes for the first half have been figured at a maximum and though a rise in tax payments is expected for the balance of the year, net will closely approximate the $11.59 of 1950. At the current price of 43, the yield based on the indicated annual dividend of $3, is about 7%. The company's liberal record shows that a higher return can be anticipated.

National Distillers has been affected by the slow action of the distillers' shares but this is because more attention has been paid by investors to the whiskey end of the business than to the chemical end which bids fair to put the stock eventually into the "growth" class. Whiskey sales are in a current slump reflecting over-buying by dealers but this is considered temporary and more normal conditions should prevail shortly. It is on the chemical side that attention should be focused for the company's long-range prospects have been greatly enhanced by its impressive entrance into the chemical field.

The merger with U. S. Industrial Alcohol has been completed, with profits from this source running at $4.8 million annually. National Petro-Chemicals, owned 60% by Distillers and 40% by Panhandle Eastern Pipe Line, has been organized and an aggressive program inaugurated for the extraction and processing of hydrocarbons from gas. With the easy availability of raw materials, this enterprise should prove profitable. The company also owns a 20% interest of Intermountain Chemical, the balance of 80% owned by Food Machinery & Chemical. A plant will be built to produce 300,000 tons pure soda ash from deposits which are believed to be the only one in existence.

To take care for these various acquisitions, the company recently sold $50 million in preferred stock, at the same time greatly improving its financial position. Earnings this year will approximate those of 1950 when $3.45 per share was shown. Major additions, such as National Distillers has embarked upon in the chemical field, take time for integration but once the preliminary steps have been taken, it is likely that the company will become an increasingly important factor in the chemical and petrochemical field with its wide potentialities of expansion. Looked at from that angle, the stock of the company, which is one of the best in the liquor field, should attract attention as a chemical, as well. On the present $2 dividend, the yield at current price of 33 is approximately 6%, a satisfactory return for an issue with good future prospects.

Colgate-Palmolive-Peet

	1951		1950		
	Quarters				
	June	March	Dec.	Sept.	June
Net Sales (Mil.)	$ 48.1	$72.7	$54.2	$62.5	$45.1
Pre-Tax Margin (%)	(d) 10.3	14.9	19.0	14.9	6.0
Net Income (Mil.)	(d) $ .9	$ 4.3	$ 4.8	$ 5.2	$ 1.9
Net Profit Margin (%)	....	5.9	8.8	8.4	4.3
Net Per Share	(d) $ .49	$ 2.04	$ 2.38	$ 2.58	$ .92

(d)—Deficit.

Colgate-Palmolive-Peet, which has been affected by adverse conditions within the soap industry, is nevertheless again attractive since the recent slump seems about to be replaced by a revival. As the accompanying table shows, earnings dropped in the second quarter, caused mainly by a severe inventory write-off in primary raw materials such as fats, oils and alkalies. Conditions in these markets are now stabilizing and the LIFO system of inventory accounting in use by Colgate should enable the company to reflect the improved commodity situation in its next income report.

Stable Earnings Record

Despite the second quarter deficit, it is estimated that earnings in 1951 will approximate $5 a share. Since 1946, earnings have been stable at a high level, fluctuating between $5.33 and $7.66 a share in this period. Such a record of earnings indicates the entrenched position of the company, which together with Procter & Gamble and Lever Bros. (Brit.) are the three dominating concerns in the soap industry. Confidence in the company's immediate future is expressed by the management's decision to spend $17 million on expansion of plant and equipment. Dividends have been paid consecutively since 1895, a remarkable record in itself. The present rate is $3 per share, giving a yield of over 6% at the current price of 47. It is worth noting that despite a poor second quarter statement, (*Please turn to page* 688)

United Aircraft Corp.

	1951		1950		
	Quarters				
	June	March	Dec.	Sept.	June
Net Sales (Mil.)	$97.8	$87.9	$76.9	$59.5	$67.4
Pre-Tax Margin (%)	8.2	9.9	11.5	10.2	7.4
Net Income (Mil.)	$ 2.9	$ 3.3	$ 3.9	$ 2.9	$ 2.9
Net Profit Margin (%)	3.0	3.7	5.0	4.8	4.3
Net Per Share	$ .84	$ .94	$ 1.33	$ .97	$ .99

The Reversal IN GOLD Movements

By V. L. HOROTH

From September 18, 1949, the date of widespread devaluations abroad, through the middle of August 1951, the United States lost some $2.9 billion in gold. Although we still had left some $21.8 billion in gold—nearly 50% more than in 1938—many people saw in this loss an evidence of the weakening of the international position of the dollar.

Fearing that heavy defense spending would add fuel to inflationary fires, they braced themselves for a further flight from the dollar and more heavy gold losses before the end of this year. Instead, there has been no loss of gold since mid-July. Actually, we gained some $50 million of gold during the month of August, and again some $54 million during the first week of September.

One could argue that one swallow does not make a summer and that a $100 million gain in gold is too small to warrant an assumption of a shift taking place in our international payments. But this is not the only sign heralding that such a change is taking place. Short-term dollar assets of foreigners have ceased to grow since last spring, and had actually declined several hundred million dollars by the end of last June.

Here again one could argue that this decline might have been due to foreign countries, banks, and nationals switching from short-term Governments into long-term U.S. Government securities. However, there is also London.

For some time now, London has been reporting that gold and dollar resources of the sterling area "pool" have been declining, and that Great Britain might be faced before long with the appearance of a new "dollar shortage". Mr. Gaitskell, the Chancellor of the Exchequer, confirmed last week, in his talks with Secretary Snyder, that Great Britain is faced with a rapidly growing dollar gap, and presumably he is now conferring with the Commonwealth Finance Ministers, attending the meetings of the International Monetary Fund, on how to prevent a further deterioration in the sterling area's dollar position.

In view of all this, is the world facing a new "dollar shortage" problem? Or is this the "old dollar shortage problem" merely emerging again, after being obscured by our heavy, but temporary, draft on foreign resources following the outbreak of the Korean war? The point is that with re-emergence of the dollar shortage problem, we may see a setback in the progress made in the last two years toward relaxation of trade and the lifting of exchange restrictions.

Dollars in Short Supply

Basically, "dollar shortage" is an evidence of an unbalance in our international payments with the rest of the world. When that happens, the world is forced to dip into its gold and dollar reserves, and husband them, as one English writer put it, "like water in the desert". In the immediate postwar years, there was a chronic unbalance in our international payments, owing to (1) the impoverishment of foreign countries that did not have enough goods to export, (2) the fact that the United States was more advanced technically, and could produce goods more cheaply and efficiently, and hence compete in the world markets more effectively, and (3) the fact that overvaluation of currencies made foreign goods too expensive, and hence unsaleable in the dollar area.

The combination of postwar rehabilitation, the Marshall Plan, and the currency devaluations in 1949, brought about the recovery of production abroad and the availablity of enough goods for export at competitive prices. A balance was restored in our international payments with foreign countries, and the dollar shortage problem appeared to be more or less solved. Many economists, especially abroad, persuaded themselves that the prophesy of the late Lord Keynes had finally been realized, and that the United States had become a "high-living high-cost" country for good.

Effect of Commodity Price Decline

Then, while the international payments between us and the rest of the world were being put on a new and presumably healthier basis, came the war in Korea and a great scramble for commodities under the mistaken impression that a defense economy would create shortages of wartime intensity. During this almost panicky grabbing at world resources—with businessmen competing with the Government—prices doubled and even trebled, particularly in the case of those commodities which were produced in the areas threatened by communist invasion.

Our purchases abroad, which prior to Korea were at an annual rate of about $7.5 billion, rose to an unprecedented level of $12.8 billion during the first quarter of 1951 (adjusted figure, including purchases by our military). Including our gifts and grants and the outflow of capital either for investment or for safekeeping abroad, during the first nine months after the outbreak of the Korean war, we were providing foreigners with dollars at an annual rate of $17 billion.

As will be noted from the first accompanying table, foreign purchases here of merchandise and services came nowhere near that amount, particularly during the third and fourth quarters of 1950. The result was, of course, that the rest of the world began to accumulate large sums of gold and dollars.

However, the situation began to change early this year, though the lag resulting from the time difference between the actual purchases of goods abroad and their arrival in this country blurred somewhat the picture. In the first place, the scramble for commodities began to lose vigor after the break-up of the Chinese offensive in February. It became clear that we could deal with the enemy. The U.S. Government started to ease off on stockpiling, and the price freeze in January barred private traders from bidding for such commodities as hides and non-ferrous metals in foreign markets.

As production abroad continued unhampered, American businessmen and consumers alike convinced themselves that no wartime shortages were in prospect. And as they started to fall back on their freshly accumulated inventories, prices began to tumble and our purchases abroad declined. However, the full effects of this development are yet to be seen. During the second quarter of 1951, our foreign purchases fell off by about $1 billion. A further drop is anticipated in the third quarter, due partly to seasonal influences.

While our imports show an indication of declining, our exports meanwhile have been expanding. From the pre-Korean rate of about $9.6 billion, they rose to an annual rate of about $12.4 billion during the last quarter of 1950 and to a rate of $16 billion during the second quarter of 1951. In addition, as will be seen from the first table, our so-called "invisible" earnings for service expanded appreciably as a consequence of a boost in the outbound shipping rates and mounting income from foreign investments, estimated now to be running at least 25 per cent ahead of last year.

At first, the expansion of our exports seemed to have been due to a scramble for the goods produced in the United States, in (*Please turn to page* 686)

U. S. International Payments Since Korea, By Quarters, At Annual Rates

(in billions of dollars)

	3rd Quar. 1950	4th Quar. 1950	1st Quar. 1951	2nd Quar. 1951
Dollars Provided to Foreigners Through				
				12.0(a)
Gifts and grants	3.9	4.9	4.6	4.5(e)
Loans and capital outflow	2.8	1.4	.7	.2
Total	16.8	17.6	18.1	16.7(e)
Dollars Needed By Foreigners To Pay For:				
Merchandise exports	10.0	12.4	13.6	16.0(e)
Services and dividends (a)	.6	1.4	1.4	1.2(e)
Total	10.6	13.8	15.0	17.2
Surplus of dollars:	6.2	3.8	3.1	......
Dollar Gap:				
	Actual figures:			
Loss of gold	.7	.8	.9	......
Change in Dollar assets	+.8	+.2	—.1	......
Total	1.5	1.0	.8	......

(e)—Estimated. (a)—Net balance on invisible srevices and income from investments. NOTE: 3rd Quarter 1950—First Quarter 1951, figures from the "Survey of Current Business", Dept. of Commerce.

Gold and Short-term Dollar Assets of Foreign Countries

(In millions of dollars)

	Sept. 30 1949	June 30 1950	March 1951	June 1951
Canada	985	1,256	1,653	1,683
Great Britain (London "pool")	1,425	2.422	3.758	3,867
Other St. Area holdings	702	766	772	777
Total	2,127	3.188	4,530	4,644
Germany	148	228	242	357
Switzerland	1,999	2,154	1,963	1,961
Other West. Europe	3,419	3,581	3,726	3,700(e)
Total	5,566	5,963	5,931	6,018
Mexico	221	224	389	420(e)
Argentina	389	454	633	632
Brazil	462	441	577	529
Uruguay	226	255	377	368
Venezuela	484	498	474	449
Other Latin Amer.	1,034	1,140	1,204	1,190(e)
Total	2,816	3,012	3,654	3,588
Japan	161	339	406	343
World (estimated	12,610	14,750	17,480	17,600

(e)—estimated.

MR. JOHNSTON'S POLITICAL AMBITIONS

By E. K. T.

DECISION of Economic Stabilizer Eric A. Johnston to retire from his present post next month and return to the presidency of the motion picture producers association is being presented generally as an act of resentment against curtailment of his jurisdiction by Defense Mobilizer Charles E. Wilson. Johnston says that isn't so, calls attention to the fact that his leave from the movie industry expires next month and he simply wants to get back into private industry. (He receives $17,500 from the government; his private job pays $125,000). Real fact of the matter is that Johnston has political ambitions, is gunning for the GOP vice presidential nomination. He bears watching!

WASHINGTON SEES:

The State Department and the economic bureaus here were deeply interested in the recent New Zealand election and still are attempting to analyze the implications, root out traces of trends.

The Nationalist Party had been in control for two years, had called for a vote of confidence, thereby moving up the regular voting time by one full year. The Labor Party had been out of office for two years (following 14 years of unbroken tenure), and put up a stiff battle to return. The Nationalists won rather easily.

At first blush this might seem a telling blow to the hopes of labor governments. The outcome was examined, naturally, in the light of growing belief that the next polling in England will mark eclipse of the Labor Government there. Washington finds the New Zealand election largely without global implications.

Reason for that conclusion is in the fact that a labor government could hardly do more to maintain a welfare state than the nationalists already are doing. Very little has been changed since labor was turned out of office; for example food subsidies and wage increases haven't been curtailed although the little country is seen rushing down the highway to inflation.

New Zealand always will be watched for political trends for its people are much like the Americans and the British in customs and thinking. Labor seized control two years after the New Deal came into power here. England's labor party is very similar to the New Zealand parties—both of them.

ORGANIZED labor has a rendezvous with destiny, which will be kept within the next 12 months. Philip Murray, president of CIO, will retire at the end of his current term, a decision forced by illness which won't allow him to continue in the rough-and-tumble. Murray is much younger than either of the others in the Big Three—William Green of AFL who is nearing 80, and John L. Lewis of United Mine Workers who is apprcaching the mid-70's. The enmities of decades of rival leadership will dissipate when Murray retires; Green, as a virtual certainty, and Lewis as a probability, can be counted on to bow out too. It's organized labor's first real chance for total unity under one banner.

PRIVATELY operated "consumers advisory bureaus" have flourished over the years and have had telling effect on sales of branded merchandise, advancing the trade marked articles which win its badge of approval, retarding others. Now, the government may step in, create its own "seals of approval." Proposed is establishment of a laboratory-equipped department within the Department of Commerce to test and evaluate the quality, utility, and abundance or shortage, of given commodities. Other agencies, the Bureau of Standards for instance, would cooperate. The bill (H.R. 5189) has real potentialities—good and bad!

LIBERALIZING importation of foreign made goods is being studied by the ways and means committee which has before it a proposition to permit duty-free merchandise to come in provided each shipment is valued at $10 or less. The idea appears to have Administration backing for it is sponsored by Rep. R. L. Doughton, North Carolina democrat. But others are wondering about the effect on retailers.

As We Go To Press

It was the 81st Congress with which the republicans, back in control of the House for a two-year stretch, planned to begin that branch's work with a prayer and end it with a probe. There were investigations but they don't come near matching those of the present session, numerically or in scope. Now another one impends. Senator Burnet R. Maybank believes there hasn't been exercise of good business judgment in the Veterans Administration, wants an inquiry into handling of the Veterans National Service Life Insurance fund. Nothing wrong, he explains; just not wise investment.

The South Carolina senator isn't giving the Treasury Department good advertising in his objection that the three per cent treasury bonds now paid on invested veterans' insurance fund, isn't good enough return. He proposes that the money be invested in mortgages which the Veterans Administration itself guarantees. Benefits he foresees are four per cent mortgage money without jeopardizing the life insurance and pension programs. The amount of money involved is not inconsiderable — 5.6 billion dollars.

The Office of Housing Expeditor is making field surveys to determine whether all communities designated as critical defense housing areas should not be placed under federal rent control. There are 30 such areas, only 12 are controlled. The situation gives rise to some paradoxes. The theory — and the fact -- is a critical defense area is one of crowded housing conditions, yet by its very designation it has priority on government assistance of all description for new housing. Local businessmen usually don't want rent controls, but without such rules they're likely to lose government business. Defense agencies threaten to send no more contracts to areas where housing is not adequate to shelter workers filling the existing orders.

The back-to-the-farm movement is definitely on, although it appears that many of the purchasers of rural land are going to the country for the first time, not "back" to it. In the four months ended July 1, farm land values rose five per cent, the Department of Agriculture finds. And this while the value of farm products was dropping six per cent -- rather clear proof that the new owners place the product of the soil as a lesser consideration. Fear of the atomic bomb has been given as one of the reasons for the latest movement out of the cities. There may be statistical support for that in the fact that the Mountain States showed the largest increase, 7 per cent; New England showed the smallest, 2 per cent.

Studies show the nonfarm buyer was the most active purchaser of "country land." Persons of that class bought almost one-third of the farms sold during the 12-month period ended March 1. A greater than usual proportion of the farms sold also went to people living outside the counties in which the land is located. Another point of significance: the Department of Agriculture found an increase in the number of farms bought entirely for cash, and a gain in the down payment on those purchased on credit.

There's hope ahead on the sulphur supply situation but it's going to be a matter of scratching for both military and civilian industry for at least one year. Until recently, little attention was paid to sulphur; today it is the commodity that determines whether many essentials will be produced in abundance or go into scarce supply. Agriculture would be prostrate without it. And the United States is one million tons short of its needs for this year.

Gasoline is one commodity which is certain to receive its full share of sulphur, but newsprint -- the paper on which newspapers are printed -- will be cut. Eighty per cent of this country's paper needs are supplied by Canada which also is feeling the world shortage, threatening to cut paper milling to the extent that the United States

fails to ship sulphur. A new source of tremendous potentiality has been discovered in Louisiana, but it won't begin delivering for about two years. Substitutes aren't working out.

Senator Humphrey's spinning legislative mill is about to turn out a new sheaf of bills aimed at a "stronger" statute on lobbying. Like the Minnesotan's bill to "strengthen" the antitrust laws, and his numerous other reforms, this one finds the weaknesses in performances of big business and the corporations generally. So he proposes among other things that all lobby groups and registered trade associations be required to list contributions from $50 up. The present law requires disclosure only when $500 or more is contributed by one individual or firm. Also, Senator Humphrey wants provision made for wider publicity on names, purposes, and practices -- as well as financing -- of registered lobbyists. Nothing in the bill on disclosing personnel or costs of government agency lobbying!

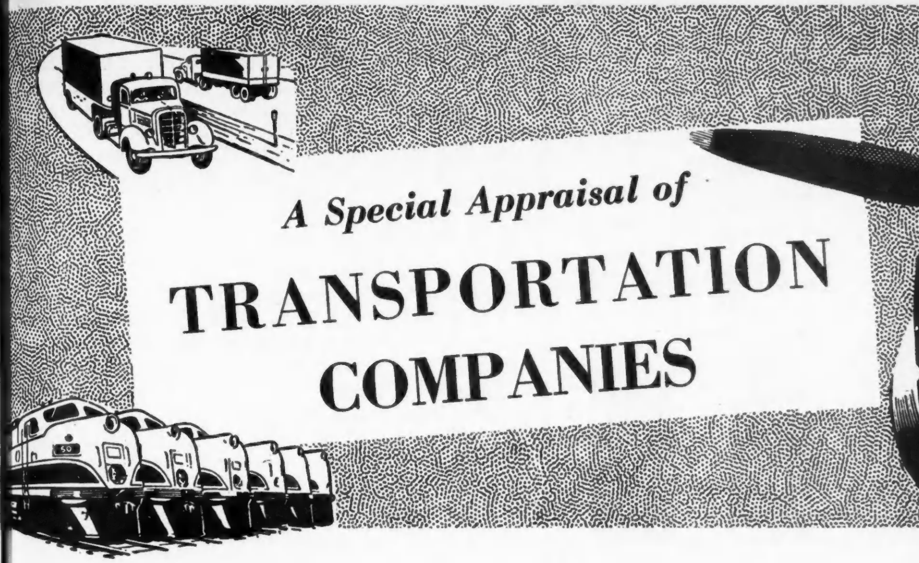
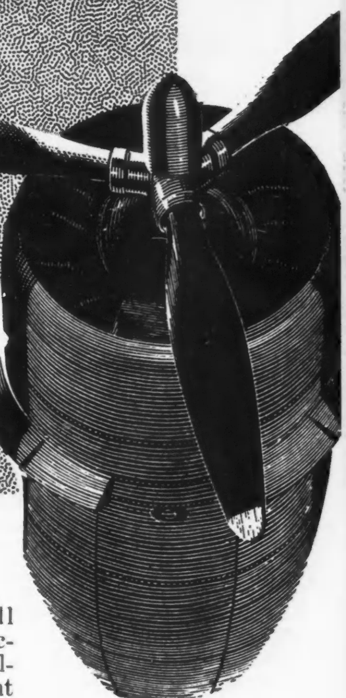
It isn't that the railroad workers don't want increased pensions, but they don't want the pension increase bill which has been voted out by the house committee and they're lobbying almost frantically to have their friends on Capitol Hill vote it down. The committee projects a 15 per cent increase in pensions, which is exactly what the rail union wanted. But congress would not be asked to appropriate any additional funds or provide any other method to pay the higher rates. The result, the rail workers know, would be a weakening of the entire Railroad Retirement System; it couldn't exist long under the financial drain. That's why they are back "on the Hill" asking their friends to forget about it.

More than one year has passed since the Army seized the Class 1 railroads to prevent a strike and except for the fact that about a dozen rail executives have been put in uncomfortable and unfamiliar khaki uniforms (otherwise undisturbed), nothing appears to have happened. It's the longest government operation since World War 1, and it would have raised the cry of "nationalization" were it not for the fact that the trainmen rarely see a military man except when he's a paying passenger. The army doesn't mind, particularly; it's a big chore, but the same persons are doing it as always.

The situation, however, is causing murmurs in congress. Some of the lawmakers view seriously the fact that the methods which have brought rail management and labor together in the past have utterly failed this time and there's no substitute in sight or even being worked on. The engineers, the firemen, and the conductors haven't edged toward agreement in the past year although the trainmen made up with management after making the faux pas of conducting a short-lived wildcat strike. The trainmen have been collecting higher wages for almost one year now; the other groups still are working at the old scale. Even if they settle now, they might run into trouble with the Wage Stabilization Board; they certainly will if the offer and acceptance involves a substantial pay increase.

AFL's League for Political Education is waiting for the results of its nationwide "Welcome Home" parties for vacationing members of the house. The congressmen returned to the Capital September 12 after a few weeks respite waiting for the senate to catch up with house actions. All AFL units were alerted to "welcome" their representatives, visit them with demands for revision of the price control laws in harmony with the White House demands. With a slight suggestion of sarcasm, the political league messages its affiliates: "You'll find him (the congressman) in the post office building or another federal building where he has a free office."

Somewhere there is misplaced confidence with respect to the amendments the President's asked for. The AFL may be regarded as following standard operating procedure and it can only be speculated whether their leaders actually believe the campaign will be successful. But it is apparent that the OPS thinks changes will be made along the lines urged by Administrator Di Salle and embraced in the Presidential message. In any event OPS lawyers aren't issuing any orders to carry out the terms of the Herlong and Capehart Amendments, although they are law. On the other hand, hardly an encouraging voice is being heard from Capitol Hill; encouraging, that is, to OPS.

A Special Appraisal of

TRANSPORTATION COMPANIES

By JOHN C. CRESSWILL

As a measure of a nation, there can be no better yardstick than a country's transportation system, and ours has grown to truly impressive size and efficiency. Since it is vital for the movement of people and goods, and to hold together and correlate a nation's activities, it has rightly been called the backbone of the economy. By the same token, transportation is the nation's first line of defense. Since the growth of a country's economy usually parallels the growth of its transportation, for the former is unthinkable without the latter, the importance of transportation to past and future progress can hardly be exaggerated.

The American transportation system today constitutes the largest segment of the economy. Over $110 billion of private and Government funds, or nearly one-fifth of America's capital values, are invested in the function of transportation. How big a business it has become is evident when we consider that the huge total of $41 billion was spent in this country for all kinds of transportation last year—to move goods and people by every form of common carrier, all privately owned with the exception of Government operation of waterways and airways.

Today, the American transportation system consists of a complex network of railroads, highways, waterways, pipelines and airways extending into every state and county. Our great arteries of commerce include a system of railroads totalling some 227,000 miles of tracks. They include 3.3 million miles of streets and highways; 57,000 miles of airways, 6,484 airports; 152,814 miles of pipelines and the basic facilities for 28,591 miles of inland waterways.

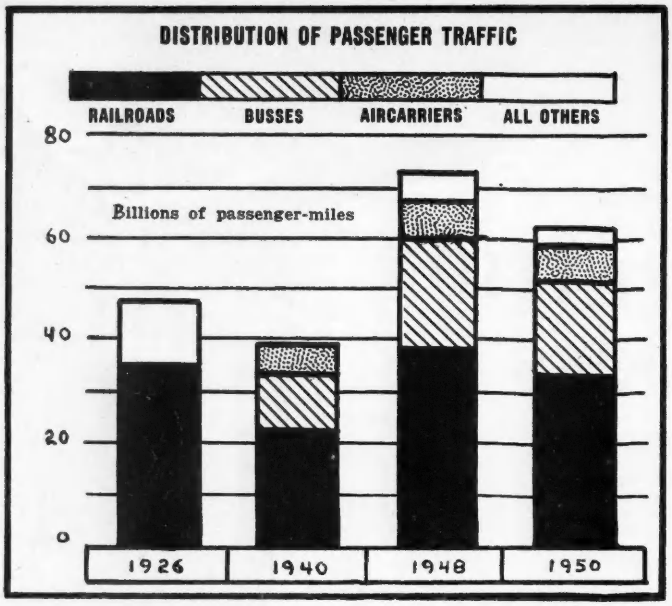
Over these vast facilities are operated 131 Class I railroads and 550 smaller railroad lines; 987 shipping companies on the Great Lakes, inland waterways, and in coastal and inter-coastal services; 16 scheduled domestic trunk airlines and hundreds of non-scheduled and private air carriers; 60,000 common and contract truck companies; 130,000 private truck carriers and 3,060 bus companies. And there are, of course, the trans-oceanic shipping lines taking care of overseas travel and commerce. It goes without saying, that all forms of transport are necessary to the national welfare and each is important to commerce and national defense. All the greater the need for a national policy keeping pace with modern transportation conditions and requirements.

After all, the past three decades have brought revolutionary changes in transport technology as a result of which the transportation problem has shifted from one of controlling the monopolistic position of the railroads to one marked by intense competitive struggle among all forms of transportation. Unfortunately, Federal policies have not proved adequate in all respects; often enough they have become a strange mixture of economics and politics when for best results they should have been lifted away from the play of pressure groups and power politics.

Are Railroads Over-Regulated?

Common complaints are that the railroads particularly are over-regulated, that they operate under severe handicaps resulting from the present system of taxation and the manner in which competing forms of transportation have been financed; that there is discrimination in the distribution of Federal aids with resultant preferences to some classes; that unlike the rails, waterways, airways and highway transportation is not required to meet all of the costs of rendering their respective services.

It has been said that Congress lacks a sound policy for the Merchant Marine; that scheduled airlines are beset with unfair competition from non-scheduled carriers due to shortsighted regulation by the Civil Aeronautics Board; that the railroads are caught in a squeeze play between rising costs and the accelerated diversion of traffic to their competitors. In short, it is charged that unsound regulation has failed to maintain the inherent advantages of each form of transport or to develop in its own sphere the greatest usefulness to the public.



A few examples illustrate what happened. Back in 1926, the railroads accounted for 76.8% of intercity freight traffic. Last year their share was only about 60.5%. Their loss of passenger traffic was even more pronounced. In 1926, their share was 75.2%, but last year only about 51.6%. Buses on the other hand gained from 9.2% in 1926 to almost 34% in 1950.

In the field of freight haulage, we find that since 1926, motor trucks managed to raise their share from 2.8% to 10.6% of the total. Pipelines raised theirs from 4.4% to 12.4%. While the air carriers' share in freight traffic is still relatively small (though growing rapidly), their gain in passenger traffic has been quite impressive. In 1940, their share was 2.7%, in 1948 it had risen to 8.1% and in 1950 it was about 11.3%, chiefly highly profitable longhaul traffic at the expense of railroad pullman business.

In all this, it must of course be considered that while there have been these incisive shifts in percentage shares among the various forms of transportation, the total transportation "pie" has grown considerably over prewar; so have of course the "slices." And that makes the relative decline of the railroads considerably less drastic than it would seem. By the same token, however, it also makes the gain of competitors more impressive.

Thus whereas in 1940, the commercial traffic of steam railroads came to some 378 billion freight ton-miles, in 1949 it was 533 billion and last year about 596 billion. The "pie" in other words was almost twice as big. Or take passenger traffic, which in 1940 came to about 23.8 billion passenger-miles. In 1949 it was 35.1 billion and last year about 32 billion, still a good deal higher than in 1940.

Such complaints are not new and many are doubtless justified; the need for revamping our national transportation policy is obvious. There is unquestioned need for revision of basic concepts and establishment of a system of regulation that will assure the stability and efficiency of all forms of carriers. But the fact that our transportation system has nevertheless expanded impressively, if somewhat expensively and at loose ends, testifies to the driving power of American enterprise, management and last but not least—the spirit of competition.

Competition has been particularly severe for the *railroads*. They have lost some of their freight and more of their passenger traffic to autos and buses, trucks and airplanes. But despite heavy competition, some of it subsidized by the Government, they remain a basic part of our transport system upon which the nation's welfare is just as dependent as before. Traffic shifts nevertheless have been incisive over the years. The rapid growth of automobile ownership and bus lines has cut deeply into passenger business over shorter and medium distances. Buses and airlines have eaten heavily into long distance passenger travel while trucks and pipelines have reduced freight traffic potentials measurably.

Improvement in Traffic Expected

Thus in spite of their relative retrogression, the railroads, as we know, have prospered in postwar years under the influence of the prolonged civilian boom and, latterly, the stimulus exerted on the economy by the defense program. Some of that stimulus wore off, at least temporarily, during recent months but this does not portend anything like a sharp traffic decline. A sizeable and growing volume of freight traffic is expected to be made available

Pertinent Statistical Data on Selected Railroad Stocks

	First Half 1951			1950						
	Gross Revenue	Operating Ratio	Net Per Share	Gross Revenue	Operating Ratio	Net Per Share	Div. 1950	Div. Yield	Recent Price	Price Range 1950-51
Atchison, Topeka & Santa Fe	$277.3	74.1%	$4.85	$522.6	67.0%	$15.64	$4.25	5.3%	80	88½-50
Atlantic Coast Line	82.2	84.3	6.04	133.6	80.0	15.51	5.00[1]	6.9	71¾	82 -41
Chicago, Rock Island & Pac.	99.9	75.2	4.27	179.6	72.7	10.19	3.00	6.2	48½	61¼-36¾
Great Northern Ry. Pfd.	113.5	79.9	2.35	227.5	71.2	9.11	4.00[1]	7.6	52¾	57¾-33
Louisville & Nashvlile R.R.	110.0	79.4	3.89	203.0	74.2	10.39	4.00[1]	7.5	53⅛	59½-34½
Southern Pacific	316.7	77.0	4.42	598.2	73.1	12.55	5.50	8.5	64⅝	74⅜-49
Union Pacific	237.9	77.5	5.64	465.2	70.3	14.80	6.00[1]	5.8	103	109½-81

[1]—Indicated 1951 rate.

	First Half 1951			1950						
	Total Operating Revenues	Operating Ratio*	Net Per Share	Total Operating Revenues	Operating Ratio*	Net Per Share	Indicated 1951 Div.	Div. Yield	Recent Price	Price Range 1950-51
American Airlines	$ 74.9	77.1%	$ .90	$118.6	80.5%	$ 1.39	$ .50	3.2%	15½	16⅞- 9⅝
Eastern Air Lines	51.8	......	1.56	78.4	87.0	2.19	.50	2.0	25	25⅞-13¾
United Air Lines	58.2	86.8	1.31	104.0	87.9	2.91	.75[1]	....	29	31 -13⅝

*—Ratio of operating expenses to operating revenue.

[1]—Paid so far this year.

under the defense program later this year. Moreover some of the current earnings gap will be closed by higher freight rates recently granted though they may not fully compensate for higher costs.

Rail earnings this year may range between $675 and $700 million, compared with $783 million in 1950, when retroactive mail pay credit were taken. Any significant increase in future earnings will depend on traffic expansion expected to develop as the tempo of defense production mounts. Individually most railroads should be able to maintain satisfactory earnings that will adequately support current dividend rates. In best position will be those geographically so situated as to benefit from secular growth as well as defense developments. This includes particularly systems operating in the growing South and West, as well as the large trans-continental trunk lines. Some of these are listed in the appended statistical table.

Truck and Bus lines in recent years have grown in stature in line with their steady encroachment on railroad business, as previously illustrated. Motor trucks in 1950 carried some 8.3 billion tons of freight, that is actual tonnage, not ton-miles. Indicative of the truck industry's growth, America's truck fleet has increased from 4.8 million vehicles in 1941 to 8.5 million in 1950, and since modern trucks are bigger, the amount of freight carried has risen even faster. Freight haulage in the last decade rose from 51 billion ton-miles a year to 115 billion!

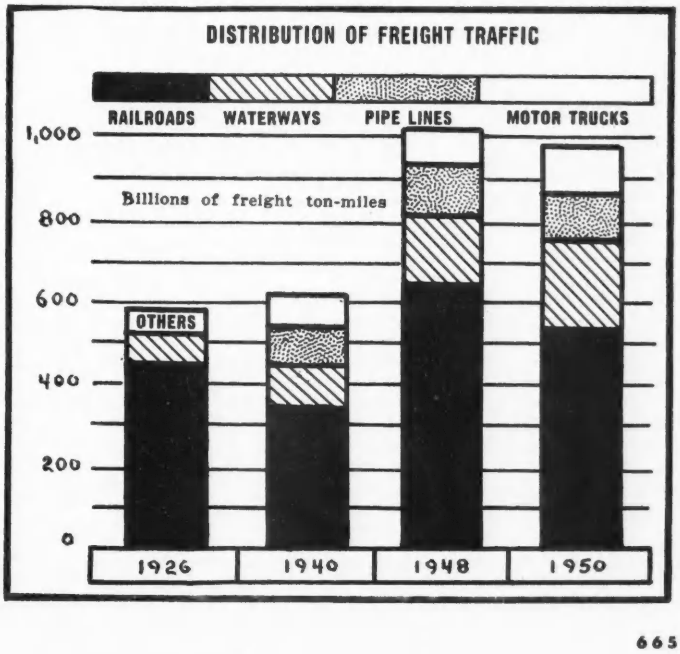
While much has been said about "unfair" truck competition, truck operators were not without their problems including heavy competition within the industry, rapid depreciation of equipment, rate controls, burdensome state taxes, etc. Under recent high level industrial activity, most leading truckers have been faring rather well. Last year, revenues of the highway carriers approached the $4 billion mark, a new high, which means that their business has quadrupled in the past decade. Expansion has been financed primarily by plowing back profits; only a handful have ever sold securities to the public. Most of them are privately owned.

More recently, business has slowed a bit reflecting lessened activity in the civilian economy which has affected all carriers including the railroads, chiefly due to excessive inventories in many consumer goods lines plus the failure of defense business to fill the gap, at least for the time being. The hope is that things will pick up later in the year; whether business then will reapproach the booming first quarter, remains to be seen.

In that quarter, truckers started off at a hectic clip, hauling 25% more freight than in the record 1950 period, and generally their haulage in the first half was of record volume. Sharp declines, ranging from 8% to 50% depending on area and industries served, hit them in July but the recession should be temporary. What the truckers like to point out is that there has been no traffic switching back to the rails.

Bus Company Problems

The leading bus companies such as giant Greyhound Corporation have been more or less holding their own earningswise but found themselves progressively squeezed between soaring costs and a moderate decline in passenger traffic. In part the situation has been relieved by rate increases though some of the highway transit companies have found this not wholly adequate. Most of them had to contend with sizeable wage increases and mounting operating costs generally, and the increasing number of private automobiles competing with public transit facilities remains an adverse factor particu-



larly affecting shorter and medium distance traffic.

Long distance bus travel has been less affected. Greyhound Corporation for instance could report substantial increases in operating revenues for both, the first and second quarter of the year, and expects to continue to benefit as the mobilizaion program progresses though this will also raise problems of manpower and materials shortages which may tend to increase operating and maintenance costs.

The world's fastest and most modern form of transportation—*the airlines*—direct their principal appeal to the passenger market and have been eminently successful in this respect. One reason is that air transportation enjoys great advantages over other means of moving from place to place—notably speed and therefore a marked saving of time—hence all indications point to continued steady growth in popularity as well as in revenues and profits.

Boom in Air Traffic

Passenger traffic of the 16 domestic air trunk lines this year is likely to be well ahead of last year's peak figure. Operating margins have widened because of a bigger load factor and because the leverage of expanding revenues apparently more than offsets the rise in costs. Net profits hence should exceed the 1950 record results.

The industry is receiving special excess profits tax treatment and as far as leading companies are concerned, indicated earnings gains should more that compensate for cuts in mail rates. Dividends, while running ahead of 1950, when most leading companies made token payments, will however remain conservative in relation to net profits, in view of substantial capital requirements for new equipment.

Major airlines should continue to benefit considerably from the defense effort which tends greatly to stimulate air travel. Emergencies heighten the value of time-saving—the chief selling appeal of the industry—as was proved during World War II. And the scheduled airlines are in a sound and favorable position to take advantage of this situation.

Revenue passenger-miles flown by the domestic trunk lines are estimated to have increased nearly 45% in the first half of 1951, this on top of a 25% rise in the final half of 1950 and one of 18% for all of last year. This was, moreover, accompanied by a sharp advance in air cargo (about 130%), mail and also of express tonnage carried. While a diminishing rate of gain is indicated for the final half of this year, domestic air traffic for the year could easily aggregate 10 to 11 billion revenue passenger-miles or some 30% to 40% more that the 1950 peak of 7.8 billion, no mean improvement. Leading companies, as listed in our table, thus seem headed for substantial profit gains.

True, depreciation and tax charges will be heavier, and the trend of wages and material costs remains upward. But against this, unprofitable seasonal "valleys" of former years have been largely eliminated for most scheduled air carriers and load factors are consistently running well above break-even points. The operation of the industry's strong leverage factor thus should be more forcefully brought into play, counteracting rising costs.

Mounting public acceptance of air travel is indicated by the fact that in 1950, the 16 trunklines performed 46% of the combined railroad Pullman and airline passenger miles, against 41% in 1949, 35% in 1948 and 11% in 1945. The ratio should rise further as traffic growth over the trunk lines, now limited by seating capacity, will be broadened through use of larger and more modern planes—more economically operated, and more planes placed into service.

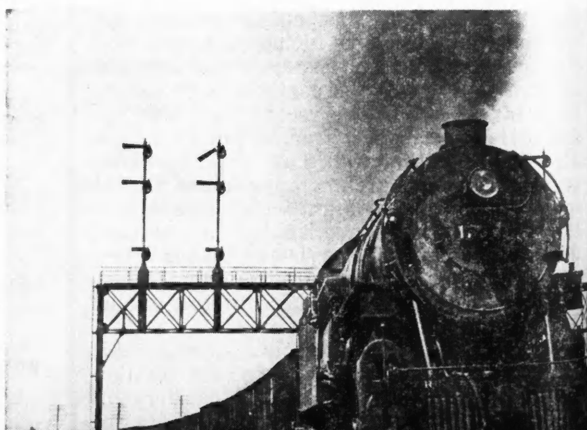
The vital importance of *marine transportation*, in war and peace, has been brought into sharp focus by the Korean war and the increasing scope of the defense program which has greatly spurred imports of foreign raw materials. The expectation is that this will inject new life into our shipping industry. We still have a very large "mothballed" merchant marine, our reserve fleet sites on June 30 containing some 1,767 idle merchant vessels on which to draw to meet rising needs for shipping space. At the same time, building of new tonnage has been moderately on the increase.

Ship operators generally face improved prospects because of additional tonnage created by the Korean war, the rearming of friendly nations and our own stepped-up stock piling activities. From an earnings standpoint, they should do fairly well, at least for the duration of the emergency. To their benefit is a more evenly balanced freight and passenger traffic, and higher rates. Although modest, additional revenues are derived from charter hire and agency fees in connection with activities of the Military Sea Transport Service and ECA.

Shipping In Stronger Position

On the whole, the American shipping industry today has stronger finances, modern and faster ships, and the experience acquired during World War II in large-scale operations on a global basis. The privately-owned ocean-going American merchant marine consists currently of 805 freighters of 8,355,000 dead-weight tons, 45 combination passenger vessels of 340,000 dwt, and 460 tankers of 6,834,000 dwt, almost all are in active service.

From an EPT standpoint, ship operators are relatively favorably situated, and earnings should reflect this. However, despite the industry's vital nature and the improved profit outlook, shares of steamship companies are hardly suitable for conservative investors because of irregular earnings and dividend records, and unpredictable changes in Government policy.



Earnings prospects are improved because of a heavy influx of defense orders and better profit margins following the lifting of ceiling prices.

The New Boom in Machine Tools

— HOW LONG WILL IT LAST?

By GEORGE W. MATHIS

Rising rapidly on the tide of enormous war orders now pouring in on American industry at a rate not equalled since World War II, orders for machinery have almost quadrupled since the end of 1949. Nearly all branches of this extremely heterogeneous industry have benefited from the astonishing uplift, but the machine tool builders are leading the procession. In fact, so urgent is the demand for machine tools that the responsible agencies of the Government have placed this section of the industry in a preferred position with regard to materials allocations.

Demand for machinery has been greatly stimulated by the increased volume of plant and equipment expenditures, with a total estimated at $23.9 billions for this year, a gain of 29% over last year. Capital expenditures for 1952, based on fixed commitments of important industrial corporations and the specific needs of the Government, indicate that the total for 1952 will be somewhat under that of 1951 but will still be substantial. With this outlook, there is little in sight that would indicate any important lessening of orders for machinery. In fact, the trend of incoming new orders is growing stronger. Present unfilled orders for general machinery are $10.7 billion against a backlog of $6.1 billion at the end of 1950 and $2.6 billion in 1949.

While the additions to plant, both for private and Government purposes, offer the prime basis for new machinery business, direct military orders are commencing to have a supplementary effect. Military requirements give the authorities concerned the responsibility of making contracts directly with the machinery makers with respect to specific ordnance items and machining operations in installations run by the military. In addition, export demand is growing, based on ECA commitments and the military-economic aid program for Western Europe.

Foreign markets normally take about 20% of the American output in peace time. When devaluation of important foreign currencies took place in September 1949, a drop occurred in 1950 exports as a result of the higher cost of American products. The trend has now been reversed owing to the ECA activities and purchases to support General Eisenhower in the NATO. After the current splurge of foreign orders has tapered off, however, there will be greater competition from countries which are trying to develop their own machinery and machine tool industries, but this influence will not make itself felt for several years, that is until armaments abroad have been built up to a much greater degree than at present.

Allocation of Scarce Materials

While conditions vary in the different divisions and subdivisions of the machinery industry, problems generated by a semi-war economy are fairly uniform. The first of these is the question of allocations. In this respect, the industry is in quite a favorable position since the National Production Authority places these manufacturers mainly in two highly advantageous categories: Class A, for those producing items for direct military goods and, Class B for those manufacturing the kind of machinery needed to complete end-products. Most machinery manufacturers will, therefore, be able to obtain needed quantities of steel, aluminum and copper, the three metals under strictest control.

The second problem of concern to the industry is the question of prices. In the first few months of the year, a great deal of confusion was caused by arbitrary and severe price limitations. One order froze

Statistical Data on Leading Machinery and Machine Tool Stocks

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Amer. Mach. & Fdry.	$ 20.4	6.4%	$ .89	$ 26.2	7.6%	$ 1.50	18½	$ .80	4.3%	C+1	Acquisition of new companies has broadened the business which is no longer limited to the tobacco trade. Dividend of 20 cents quarterly could be increased.
Babcock & Wilcox X	74.1	4.4	2.34	139.6	6.8	6.70	37⅞	2.00[8]	5.3	B2	Strike earlier this year impeded earnings gain but full year's total should equal 1950. Sound finances; present dividend can be supplemented by extras.
Blaw-Knox	47.0	3.2	1.07	61.8	4.5	1.99	18⅛	1.25	6.9	C2	Backlog doubled since end of 1950. Earnings slightly above 1950 anticipated. Long-range position favorable. Current dividend may be supplemented by year-end extra.
Bliss, E. W.	18.9	3.6	1.01	21.5	6.4	2.01	15¼	1.00	6.5	C2	Profits for 1951 should be somewhat above those for 1950. Good financial position and steady earnings warrants continuation of 25-cent quarterly.
Bucyrus-Erie	38.6	8.6	2.06	49.5	9.4	2.80	22⅜	2.00	9.0	C+1	Profits this year will increase substantially. Financial position sound and dividend can easily be increased. Defense program offers strong background.
Buffalo Forge	11.4[1]	6.7	2.37[1]	16.9[7]	10.5	5.48[7]	41½	4.00	9.6	C2	Sharp gain in sales should bring increase in earnings above $5.48 shown last year. Dividend rate already liberal and higher payment not expected.
Bullard	12.4	5.0	2.23	12.5	7.0	3.17	30½	1.75	5.7	C+1	Leading factor in machine tools, selling especially to automotive industry. Earnings will show considerable increase this year and can support payment of extras.
Caterpillar Tractor	264.3[2]	4.6	3.11[2]	337.2	8.7	7.49	47	3.00[8]	6.3	B—3	Leading producer of diesels as well as tractors. Earnings affected by higher taxes and will probably not equal those of 1950. Extra not expected but 75-cent quarterly should be continued.
Chi. Pneumatic Tool X	11.1[3]	11.0	2.96[3]	32.8	14.6	10.22	47½	3.25	6.8	C+1	Company favored by high EPT base and earnings should exceed those of 1950. Fifty-cent quarterly should be supplemented by extras.
Cincinnati Mill. Mach. X	......	......	1.46[4]	38.3	6.5	2.70	35	1.75	5.0	B+1	Largest American machine tool maker. Backlog about five times that of end of 1949. Sharp gain in sales will bring earnings above 1950. Extra dividend indicated.
Evans Products	11.2	3.0	1.39	20.0	6.3	5.23	14⅛	.50	3.5	C—3	Company's record in recent years not satisfactory though 1950 produced good results. Present year will show decline. No dividend change likely.
Ex-Cell-O	27.8[6]	7.0	3.07[6]	35.5	9.9	5.56	43½	2.90[9]	6.6	B—3	Company benefiting from large increase in sale of precision parts to aircraft industry. Earnings will show moderate gain over 1950. Company in strong position and can increase dividend.
Fairbanks Morse	56.3	4.4	4.13	85.4	4.5	6.40	52½	2.50	4.7	B+1	Exceptionally high EPT base permits high net income. Company's earnings this year should be well above 1950. Dividend rate can easily be increased.
Food Mach. & Chem.	76.0	6.7	2.11	101.8	7.6	3.35	46¼	1.50[8]	3.2	B+1	Continued expansion in chemical field opens up new possibilities. Increase in earnings expected but in view of capital requirements, addition to current dividends not expected.
Foster Wheeler	35.2	2.5	3.16	58.0	4.3	8.89	43	4.25	9.8	C—3	Earnings satisfactory though at somewhat smaller rate than 1950. Backlog up about 50% since a year ago. Present dividend plus extras expected.
Greenfield Tap & Die	9.9	9.2	4.47	11.7	9.5	5.45	35	2.00	5.7	C+1	Company a leader in small tool industry and showing steady progress. This year's results expected to top 1950 by good margin. Current $2 annual rate secure.
Ingersoll Rand	33.8	14.2	2.37	89.8	20.8	9.25	85	5.75	6.7	B—3	Leading capital goods manufacturer with wide market diversification. Strong cash position permits continuation of 1950 dividend though taxes will reduce earnings.
Joy Mfg.	51.2[5]	7.9	4.62[5]	45.2	7.8	4.02	34½	2.50	7.2	B+1	New mechanical coal machine in great demand. Earnings this year will exceed 1950. Current dividend can be supplemented by extra.
Link Belt X	57.0	7.2	2.51	83.1	10.3	5.21	47½	2.50[8]	5.2	B2	One of the leaders in the machinery field, especially in conveyors. Earnings will approximate 1950 and $2.50 dividend on split-up stock is secure.
Mesta Machine X	18.0	......	......	10.8	5.2	5.60	51	3.50	6.8	B2	Stable record of earnings in recent years. Dividends well supported by earnings and financial position.

1—6 months ended May 31, 1951.
2—7 months ending March 31, 1951.
3—Quarter ending March 31, 1951.
4—24 weeks ended June 16, 1951.
5—9 months ended June 30, 1951.
6—Year ended June 30, 1951.
7—Year ended November 30, 1950.
8—Indicated 1951 rate.
9—Plus stock.
X—Recommended for Appreciation.

prices at the levels existing between December 19, 1950 and January 25, 1951. This was subsequently modified to allow for certain exceptions. During this period, however, affecting practically the entire first half results, profit margins were subjected to a considerable squeeze. This has been subsequently rectified, permitting higher price ceilings. The effect of this will be seen in the second half of the year when manufacturers will be able to benefit from the higher ceiling prices.

It must be recognized that normally there is an enormous lag between order and delivery, the operation sometimes taking as long as eighteen months or more. In many cases, individual orders for specific machines can be accommodated only by manufacture on a custom basis. Under these conditions, costs may vary widely between the time of order and its completion. To obviate such handicaps to the machinery manufacturing industry, it was necessary for the price authorities to grant relief. However, despite the advantage gained by the new price regulation, it is probable that the net margin of profit, though henceforth higher than in the first half of 1951, will not rebound fully to that prevailing during the latter period of 1950. This is due to the fact that as business continues to mount, new influences become operative.

Contributing to this newer development in the industry is the fact that as Government business increases substantially, the profit spread narrows under statutory limitations. The second is that under the press of growing production schedules, a good deal of business must now be farmed out to subcontractors and this type of business is generally not highly profitable to the originating concern. The profit margin trend is thus somewhat different from that in 1950 when margins were widening.

Higher taxes, of course, are also a factor in reducing the percentage of net profit and it is likely that the second half of the year will reveal the influence of this force even more clearly. It is quite possible that for many companies in this field, net income for the full year, while quite satisfactory, will not be as great as expected owing to the tax impact.

Large Output Will Continue

The machine tool builders generally have the additional handicap of a low EPT exemption base, their poor earnings record in 1946-1949 making them rather vulnerable to that impost so that profits, while higher in 1951, will be pared down by tax liabilities. The heavy machinery manufacturers are in a better position in this respect since they enjoy a higher EPT exemption.

The overall picture for the machinery industry however appears quite satisfactory from both the standpoint of sales and profits, though, as stated, some modifications must be expected owing to the press of new operating conditions. Based on the huge volume of orders on hand, it would seem that the industry will continue to operate on a very high level for the balance of 1951 and well into 1952, probably until the end of 1952 at least, unless there is an important change in the Governments plans for rearmament.

Looking at the industry picture in closer detail, it should be remembered that this is not a homogeneous group and that it is, in (*Please turn to page* 687)

Statistical Data on Leading Machinery and Machine Tool Stocks (Continued)

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Monarch Mach. Tool	6.1	5.7	.84	7.0	8.0	1.42	20⅛	1.20[8]	5.9	C+1	Backlog more than doubled since end of 1950. Increase expected in this year's earnings. Dividend covered by satisfactory margin.
National Acme	14.5	8.4	2.45	17.8	11.4	4.08	35⅝	2.50	7.0	C+1	Enormous increase in backlog. Earnings this year well above those of 1950. Current dividend may be supplemented by extra.
Niles-Bement-Pond	......	......	......	26.2	6.7	2.22	19⅜	1.00	5.1	C2	Large volume of defense orders points to higher earnings. Present 25-cent quarterly dividend may be raised.
Starret, L. S.	11.3[6]	9.4	7.26[6]	6.7	6.9	3.18	43⅛	3.00[8]	6.9	C+1	Earnings doubled over 1950. Good earnings record and sound finances warrants expectation of increase in present dividend.
United Eng. & Fdry. X	29.3	6.6	2.33	66.8	7.9	6.39	50	4.00	8.0	B—3	Earnings will be shaved this year by taxes but still very satisfactory. Dividend rate should be maintained.
U. S. Hoffman Mach.	8.4	.8	.05	15.8	2.6	1.17	15⅝	......	......	C—3	Highly erratic record of earnings. At present inconsequential rate, no dividends are likely.
Van Norman	......	......	1.50[4]	14.2	5.9	2.29	18¼	1.20[8]	6.5	C+1	Manufacturer of specialized tools. Earnings should show increase over 1950. Dividend well covered but extras not expected.
Waukesha Motor	......	......	......	17.0	3.7	1.05	17⅞	1.25[8]	7.0	C2	Company favored by expansion in demand for its various products. Net should be sharply above 1950. Present 25-cent quarterly can be continued plus an extra.
Worthington P. & M.	56.2	5.1	2.71	82.9	7.1	5.70	28¾	2.75	9.5	B2	Profits should be close to last years. Demand especially from petroleum and public utility sources, very heavy. Another year-end extra expected in addition to 50 cent quarterly rate.

1—6 months ended May 31, 1951.
2—7 months ending March 31, 1951.
3—Quarter ending March 31, 1951.
4—24 weeks ended June 16, 1951.
5—9 months ended June 30, 1951.
6—Year ended June 30, 1951.
7—Year ended November 30, 1950.
8—Indicated 1951 rate.
9—Plus stock.
X—Recommended for Appreciation.

Non-Ferrous Metals

—*Under Tight Supply and Ceiling Prices*

By RICHARD COLSTON

Under the impact of defense needs, the United States finds itself confronted with an acutely short supply of non-ferrous metals, and precisely at a time when the needs for these metals is greatest. With the passage of each day, demand pressures build up further. Copper is expected to be in tight supply for years to come; by 1954, however, it is expected that lead will be only slightly short of supply balance; by the end of 1953 zinc supplies will equal this year's demand; aluminum will hit a demand-supply balance sometime before 1954 but nickel, hard hit by defense demands, remains one of the toughest problems, with no supply balance indicated in the foreseeable future.

First-hand demands of the Government's stockpile have reduced available supplies and next, military requirements progressively encroached on supplies and will probably further increase civilian shortages. While a good deal of tightness in the supply situation could be eased by bigger imports, the Government is also concerned with the problem of inflation and takes the stand that if it were to allow a free market in these scarce metals, prices would skyrocket wildly. Hence, domestic prices of non-ferrous metals are frozen at levels which are considerably below prevailing world prices, intensifying the shortage problem since world supplies naturally seek the markets where the highest prices prevail. This applies particularly to scarce copper. A move is afoot to remedy the situation but meanwhile America must go without, and continue to try to make ends meet by strict allocation controls.

For the end-users of non-ferrous metals, the supply outlook is a dismal one, carrying with it prospects for an indefinite continuation of the Controlled Materials Plan under which existing supplies are allocated. But metal producers, our main concern in this study, are assured of a ready market for every ounce they can produce. Even current and prospective vigorous expansion of production facilities will not detract from this outlook in the foreseeable future, particularly as long as ceiling prices cause a declining trend of metal importations that may well offset production gains from expanded facilities.

In attempts to lure some of the foreign produced metal to America, tariffs have been suspended and there has even been some talk of the Government's General Services Administration going into the world market and buying non-ferrous metals at the higher prevailing prices and then re-selling such high-cost metal to industry at the domestic ceiling prices. The taxpayer would have to foot the bill for this indirect subsidy. However, despite all short-run remedies suggested, there are still only two ways to bring demand in balance with supply. The first is to reduce demand, which is currently attempted through allocations at the expense of civilian consumers. This of course is an imperfect means of coping with the situation. This leaves only the expansion of producing facilities as the answer to the problem and while progress is being made in this direction, it is expected that it will be 1954 at the earliest before an adequate over-all supply situation will prevail.

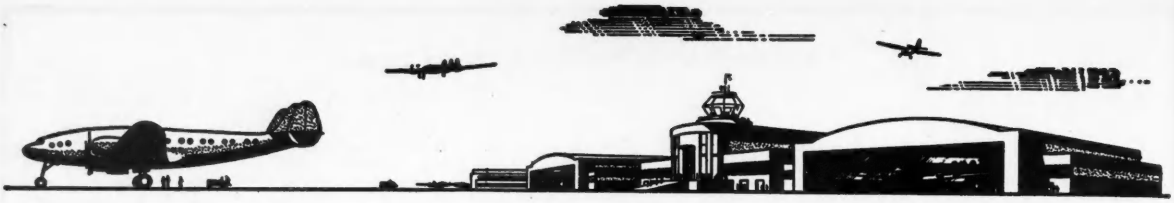
Special Tax Privileges Help

Will the record metal sales be translated into increasing net profits for producers? Generally speaking, the answer will be yes. Though higher taxes loom ahead, mining and producing companies have at least a substantial EPT cushion and further enjoy special write-off privileges for depletion and depreciation. Tax authorities are inclined to rulings in such a manner as to encourage exploration for additional ore supplies. (*Please turn to page* 694)

Financial Data on Non-Ferrous Metal Stocks

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Alum. Co. of America X	$276.6	9.2%	$ 4.94	$481.1	9.7%	$ 9.07	86¾	$ 3.00[8]	3.4%	B1	Earnings will probably be slightly better than those of 1950 despite higher taxes. The $0.75 quarterly dividend is safe.
American Metal, Ltd.	....	......	3.03	368.0	2.1	5.94	54	2.00[9]	3.7	B2	The tight scrap supply and lower ore imports will tend to hold earnings close to 1950's. The $0.50 quarterly dividend may be supplemented with an extra.
Amer. Smelt. & Refin. W	276.3	7.3	7.07	489.7	8.7	14.91	89	6.00	6.7	B2	Earnings may range around 1950's $14.91 per share. Dividends are expected to exceed last year's $6.00 per share.
Am. Zinc, Lead & Smelt.	40.0	10.2	2.02	62.5	6.1	5.14	19	1.00	5.2	C2	Earnings should match last year's and the $0.25 quarterly dividend will most likely be continued.
Anaconda Copper W	230.8	10.9	2.92	422.9	11.0	5.38	47⅛	3.00	6.3	B1	Earnings should exceed the 1950 $5.38 per share results despite higher taxes. The $0.75 quarterly dividend may be supplemented by an extra.
Cerro de Pasco Corp.	26.6	22.6	5.13	34.7	11.3	3.53	48¼	1.00[10]	2.1	C+1	Increased copper, lead, and zinc production, at higher prices, points to sharp earnings increase and probably higher dividend.
Climax Molybdenum	....	......	1.56	33.2	38.9	5.13	38	2.80	7.1	B2	The high rate of steel production should assure duplication of last year's earnings. The $0.50 quarterly dividend appears secure.
Eagle-Picher	43.1[2]	4.2	2.02[2]	69.1[1]	4.2	3.25[1]	23⅜	1.50	6.4	C+1	Earnings may top 1950's by as much as $0.75 to $1.00. A year-end extra may supplement the $0.30 quarterly dividend.
Howe Sound	15.3	12.8	3.99	23.6	10.8	5.29	72⅝	3.00	4.1	B1	Earnings may reflect cobalt activities, expanding above last year's $5.29 per share. The $0.75 quarterly dividend will probably be continued.
Hud. Bay Min. & Smelt. X	24.7	30.6	2.74	43.8	34.8	5.53	56⅝	5.00	8.8	C+1	Despite heavier taxes, earnings should exceed last year's. The $1.00 quarterly dividend may again be supplemented by a $1 extra.
Inspiration Cons. Cop'r.	9.6	23.6	1.92	17.5	22.6	3.34	23⅝	2.25	9.5	C+1	Earnings in uptrend, due primarily to higher prices and a favorable tax position. Dividends may duplicate last year's.
International Nickel X	131.5	22.4	1.95	228.0	21.4	3.21	39⅜	2.00	5.1	B1	Unprecedented world demand and favorable margins assures substantial earnings expansion. Dividends should exceed last year's $2 a share.
Kennecott Copper W	233.1	21.5	4.65	396.8	22.2	8.15	79⅝	5.50	6.9	B1	Increased production, plus a titanium interest, point to higher earnings. Dividends may top 1950's total of $5.50 per share.
Magma Copper	6.1	13.6	1.31	13.9	14.3	3.15	35	......	......	C1	Higher prices may push profits above the $3.15 recorded in 1950. Substantial cash requirements place dividends some time away.
Miami Copper	5.2[5]	......	.98[6]	20.2	8.1	2.21	20⅜	1.75	8.6	C+1	Improved prices should permit higher earnings. The $1.75 dividend of 1950 should be duplicated this year.
New Jersey Zinc	....	......	2.80	......	......	5.11	77	3.00	3.9	B1	The important titanium interest plus price and production gains, suggest higher earnings. Dividends may exceed last year's $3.
Phelps Dodge W	141.0	16.0	4.44	224.5	17.8	7.91	68¼	5.00	7.3	B1	Strong sales rise points to higher earnings and dividend disbursements may top last year's $5.00 per share.
St. Joseph Lead X	58.4	13.2	3.13	103.8	11.7	5.11	47¼	3.25[9]	6.8	B—1	Higher lead and zinc prices should offset tax increases and boost profits above last year's. Higher dividends indicated.
Reynolds Metals Co. X	112.2	9.1	7.00	166.9	7.5	8.84	55½	1.50[8]	2.7	C+1	Despite higher taxes, strong aluminum demand assures substantially higher earnings. The $0.25 quarterly dividend will be supplemented by extras.
U.S. Smelt., Ref. & Min.	....	......	1.17[7]	34.0	5.0	.16	65	1.00[8]	1.5	C+1	Better prices, enlarged output suggest earnings substantially above last year's. Higher dividends indicated.
Vanadium Corp of Am.	17.9	6.1	2.69	29.3	7.6	5.51	36¾	2.00[8]	5.4	C+2	High steel activity assures earnings close to last year's. The $0.50 quarterly dividend is amply covered and secure.

1—Year ended Nov. 30, 1950.
2—6 months ended May 31, 1951.
3—Year ended May 31, 1950.
4—Year ended May 31, 1951.
5—First quarter 1951.
6—First quarter, company estimate.
7—5 months ended May 31, 1951.
8—Indicated 1951 rate.
9—Plus stock.
10—1951 rate plus stock.
X—Recommended for Appreciation.
W—Recommended for Income.



Super Boom in AIRCRAFTS

—BUT WHAT DOES IT MEAN IN PROFITS?

By STANLEY DEVLIN

A Record-breaking "peacetime" boom is being experienced by the aircraft manufacturing industry. Unfilled orders for jet fighters, modern high-speed bombers, guided missiles and a variety of secret weapons have mounted into billions of dollars. Strangely enough, even while a momentous peace treaty has been signed bringing to a formal close the war with Japan, aircraft plants all over the country are busily engaged in preparing for another conflict—or, at least, to forestall a third World War. This country's proposed enlargement of the Air Force contemplates expenditures running into scores of billions annually.

What does this huge armament program mean for aircraft manufacturers as well as for holders of stocks representing this growing industry? Obviously, all major factors regularly engaged in producing frames, engines, instruments and the variety of components going into modern fighting machines are assured of capacity operations for an indefinite period ahead. Even marginal producers who have struggled since 1945 to make both ends meet have received sufficient orders to reactivate long idle facilities and to restore profitable operations. In addition, many manufacturing concerns in other industries have devoted a part of their facilities to aircraft.

Despite this promise of "full steam ahead" for two years or more, aircraft stocks have advanced only moderately in discounting a tremendous expansion in shipments and at least moderate improvement in earning power. The fact that investors have adopted a cautious attitude in appraising shares in this group may be attributed to uncertainty over the Washington Administration's convictions on a permanent enlargement of the Air Force. Recent developments have suggested, however, that Congress may authorize an expansion to 150 groups or more. Pressure has been brought to bear also for the addition of large new aircraft carriers to the Navy's air arm which would require substantial flying equipment. As a result of these proposals, which appear to have gained considerable support, plans are materializing for a much larger Air Force than previously contemplated.

Another reason for the relatively unenthusiastic attitude of the investing public is the difficulty in appreciating the significance of huge orders. Perhaps prospects for individual companies may be more readily visualized if order backlogs are expressed in dollars per share. Such figures at least suggest pre-tax profit potentialities.

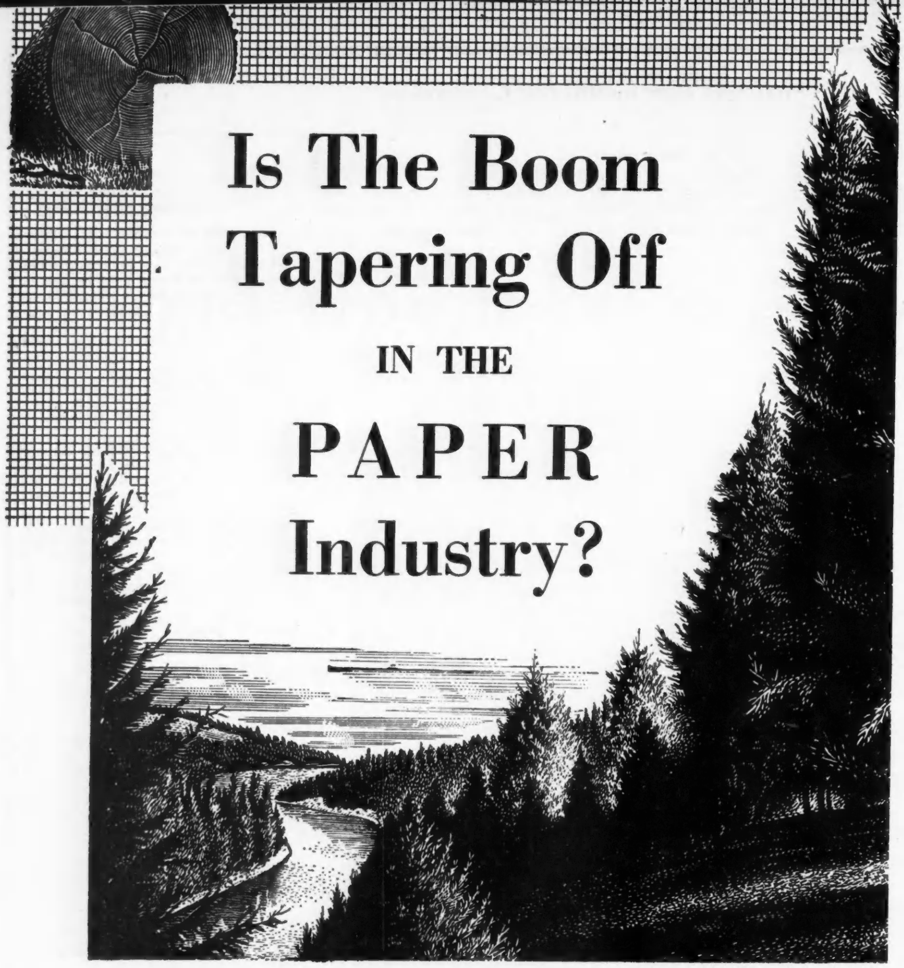
The extent to which future business has expanded is more easily understood on the basis of comparisons in terms of orders per share of stock. It may be revealing to consider a few typical examples. Boeing Airplane probably has as large a backlog as any domestic manufacturer. Recent figures indicated a total of pending business at about $1,200 million, or roughly $1,110 in orders for each share of stock. Although profits are not easily calculated either on the basis of past experience or by standards of World War II, it is apparent that a margin of 10 per cent – relatively low in manufacturing – would afford a pretax return of more than $100 a share on potential shipments on present contracts. Many factors must be taken into consideration in making even rough approximations of future earnings, however, so that it would be foolhardy to attempt to guess what stockholder *(Please turn to page* 691)

Statistical Data on Aircraft Companies

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Beech Aircraft	$ 22.0[8]	2.2%	$ .84[8]	$ 16.4[1]	3.5%	$ .98[1]	13½	$ .80	5.9%	C1	Unfilled orders almost triple $50 million backlog year ago, indicating sharp rise in shipments and earning power. Dividend rate to remain conservative.
Bell Aircraft	35.3	3.0	2.43	36.2	4.0	3.37	28¼	1.75	6.2	C+1	Growing utility of helicopter in military as well as civilian services has spurred backlog to record volume about 10 times pre-Korean total. Profits rise.
Boeing Airplane	167.8	1.8	2.85	307.2	3.5	10.00	49⅛	3.00	6.1	C+2	Emphasis on heavy bombers assures high rate of operations for years ahead, but immediate earnings outlook uncertain. Dividends expected to approximate 1950 $3 payment.
Cessna Aircraft	......	......	......	7.1[1]	3.2	.32[1]	6¾	.20	3.0	C1	Subcontract work believed to account for substantial part of backlog estimated at about $60 million. Moderate gain in earnings indicated for current year.
Consol. Vultee Aircraft	144.6[9]	2.8	1.75[9]	255.8[2]	4.0	4.36[2]	20	1.40[10]	7.0	C+1	Project for atomic powered planes adds romance. Large backlog of military and commercial planes assures high rate of production. Dividend increase possible.
Curtiss-Wright	83.5	3.9	3.49	135.6	5.3	.77	11	1.00	9.1	C+1	Management changes and arrangements for making British jet engines contributed to recovery in competitive position. Earnings likely to cover $1 dividend.
Douglas Aircraft X	97.2[9]	3.9	3.09[9]	129.8[2]	5.5	6.01[2]	55⅛	3.00[10]	5.4	B1	Commercial orders remain substantial despite sharp rise in military backlog. Earnings expected to exceed $6 a share for 1950. Dividend may hold $3 rate.
Fairchild Cam. & Inst.	......	......	......	10.1	4.7	1.39	32¼	.75	2.3	C+1	Civilian business becoming more important than military orders for photographic supplies. Moderate gain in earnings seen. Dividend steady at $1 rate.
Fairchild Eng. & Air.	......	......	......	59.8	5.1	1.34	8¼	.60	7.4	C1	Increasing dependence on air cargo craft for troops and supplies assures demad. Backlog almost doubled in 9 months. Earnings hampered by strike and tax rise.
Grumman Air. Eng.	69.8	2.9	1.02	102.3	6.1	3.12	24⅛	2.00[10]	8.3	C+1	As major supplier of Navy's air equipment, company stands to benefit from projected boost in air power. Earnings gain indicated in sharp upturn in shipments in 1951.
Lockheed Aircraft	98.0	4.1	1.79	173.3	4.1	3.23	22¼	1.75[10]	7.7	C+1	Good volume in commercial planes likely to continue despite sharper expansion in military backlog. Earnings afford wide coverage for indicated $1.20 annual rate.
Martin (Glenn L.)	16.7	3.0	.45	40.1	7.8	2.76	17¼	......	......	C+1	Profits on commercial volume expected to be limited, but military shipments gaining and earnings should be higher this year. Dividend resumption may be delayed.
North Amer. Aviation	119.9[8]	3.7	1.30[8]	143.0[1]	5.6	2.35[1]	17⅛	1.25[10]	7.2	C+1	Backlog virtually doubled in last year at about $550 million and earnings for year just ending expected to top 1950's $2.35 a share. Dividends at $1.25 a year likely.
Northrop Aircrapt	60.5[4]	3.6	4.92[4]	43.8[3]	(d) .1	(d) .10[3]	15¼	......	......	C1	Sharp increase in orders due to success of new military designs for fighters and bombers. Dynamic rise in earnings raises hope of continuance of dividends.
Piper Aircraft	3.9[8]	8.4	.35[8]	3.9[1]	(d) 4.5	(d) .27[1]	3	......	......	C1	Rapid expansion of aircraft program contributing to subcontract work and recovery in modest earnings. Resumption of dividends regarded as unlikely.
Republic Aviation	52.2	2.5	1.34	57.7	4.1	2.34	15	.75	5.0	C+1	Enlargement of jet fighter forces is major factor in build-up of backlog. Slightly higher earnings projected, but dividend may not be increased.
Ryan Aeronautical	......	......	......	12.5[5]	5.1	1.61[5]	9⅝	.40[10]	4.1	C1	Boost in backlog to largest total in years expected to assure continuance of profitable operations. Ample coverage indicated for 40c annual rate.
Solar Aircraft	10.4[7]	2.4	.52[7]	25.5[6]	4.7	2.55[6]	20½	.70	3.4	C+1	Leading producer of important parts for jet engines, suggesting long range growth. Earnings expected to hold about $2.50 a share. Dividend secure.
United Aircraft X	185.8	3.3	1.78	269.6	4.9	3.73	32¾	2.00[10]	6.1	B1	Heavy backlog points to substantial earnings gain despite tax impacts. Growth promising. Ample margin for $2 annual dividend.
Wright Aeronautical	53.7	3.8	3.45	77.5	5.1	6.65	95	5.00	5.2	C+1	Subsidiary of Curtiss-Wright likely to regain importance as supplier of military aircraft. Earnings expected to afford ample cover for $5 dividend.

(d)—Deficit.
1—Year ended Sept. 30, 1950.
2—Year ended November 30, 1950.
3—Year ended July 31, 1950.
4—9 months ended April 30, 1951.
5—Year ended Oct. 31, 1950.
6—Year ended April 30, 1951.
7—Quarter ended July 31, 1951.
8—9 months ended June 30, 1951.
9—6 months ended May 31, 1951.
10—Indicated 1951 rate.
X—Recommended for Appreciation.

Is The Boom Tapering Off IN THE PAPER Industry?



By H. F. TRAVIS

Last year, paper-hungery customers consumed a record paper production of $24\frac{1}{4}$ million tons and this year, it looks as though the 1950 record will go into the discard, topped perhaps by some two million tons. The papermakers, who have rolled up a 46 per cent increase in aggregate capacity in the last decade alone, expect to boost production capacity another three per cent this year but meanwhile paper demand is still placing stresses and strains upon available supplies despite an easing of pressure in certain areas.

The peak paper production of the last six months has supported the belief that a portion of this high output has gone into dealer and consumer inventories. Admittedly, order backlogs have shown some tendency to weaken during recent months but stocks held by distributors are not believed to be unwieldy and with defense demands rising, military requirements should go far towards sustaining an excellent overall demand potential. Because of that as well as recent cost rises, there appears little prospect of any notable softening of selling prices.

On the capacity side, not much increase can be looked for. Manufacturing activities in recent months have been running at percentage rates which varied in the high eighties and, at times in the recent past, the industry has operated in excess of 100 per cent of rated capacity. Some plants have been operating on a six-day week and other than adding more working hours, which is still a possibility but a high-cost and inefficient method of expanding output, little can be expected in the way of greatly increasing paper production.

The expansion programs of the major paper-makers are largely completed at this point and other than the fact that facilities for increasing over-all production capacity by about three per cent will come into operation this year, not much is being said about further "upping" paper-making capacity. The longer-term demand-supply outlook will probably change little, and should the international situation flare up further, the paper industry would probably face strict Government allocation of its product to serve the paper needs of the nation.

While at present, normal civilian demand may be less avid than in the past, Government needs have been rising impressively, reflecting the growing bureaucracy of the Federal Government. To satisfy this voracious paper appetite, the Government has ruled that the industry must set aside five to ten per cent of its monthly production for use by the Government agencies. Specifically, the Government order requires that five per cent of newsprint production be set aside, 10 per cent of printing and converting papers, 10 per cent of coarse paper other than Kraft, five per cent of industrial papers, five per cent of sanitary papers, 10 per cent of packing papers, five per cent of tissue papers and five per cent of absorbent papers.

Government "Set-Asides"

If the Government does not place its order prior to the tenth of any month, that month's "set-aside" is released for sale in the usual commercial channels. On the whole, this procedure takes a lot of the confusion out of mill-Government relationships. However, as sort of a bureaucratic afterthought, Government officials added a "kicker" to this directive which says, in effect, that even though a mill may not be able to operate at capacity because of material shortages, it must still set aside tonnages up to its full monthly ceiling.

This almost amounts to official recognition of a difficult basic problem which underlies the paper supply situation. The paper industry is beginning to have raw material worries. Following the indescriminate woodsman's (*Please turn to page* 000)

Statistical Position of Individual Paper Companies

	First Half 1951 Net Sales (Millions)	First Half 1951 Net Margin	First Half 1951 Net Per Share	1950 Net Sales (Millions)	1950 Net Margin	1950 Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Champion Paper & Fibre X	$ 29.9[1]	9.6%	$1.26[1]	$106.3[2]	9.9%	$ 4.60[2]	31	$1.50[8]	4.8%	B2	Higher taxes are likely to reduce earnings below last year's, but dividends are likely to be sustained at the $0.37½ quarterly rate.
Container Corp. of Amer.	117.3	7.6	4.42	154.8	7.7	5.87	40⅞	2.75	6.7	B1	Despite sharply increased taxes, higher prices should boost profits above last year's. Extras may supplement the $0.50 quarterly dividend rate.
Crown Zellerbach	60.4[3]	10.7	2.12[3]	225.7[4]	11.2	8.21[4]	54¼	3.10[8]	5.7	C+2	Higher taxes may cancel out sales gains and net per share may ease below last year. The $0.65 quarterly dividend plus extras should continue.
Dixie Cup	18.9	7.8	3.89[10]	29.3	9.9	12.18	66	3.00[8]	4.5	B1	With markets continuing to expand, earnings may top 1950's $12.18 per share. The $0.75 quarterly dividend is amply covered.
Gair (Robert) Co.	43.1	9.7	2.35	56.8	7.3	2.14	16	1.00	6.2	C+1	Indicated sharp sales increase assures profits above last year's. A year-end extra, in addition to the $0.25 quarterly dividend rate, is possible.
Gaylord Container	43.8	11.4	2.15	62.4	11.0	2.94	35½	1.50	4.2	C+1	Higher average prices assure higher profits. Dividends should continue at the $0.37½ quarterly rate.
Great Northern Paper	....	......	2.58	....	......	4.33	56	3.00	5.3	C+1	High newsprint consumption indicates share profits above last year's. The $0.60 quarterly dividend may be supplemented by year-end extra.
Hinde & Dauch	25.3	8.6	2.31	38.8	9.2	3.75	21½	1.80	8.3	C+1	Expanding sales may point to earnings above last year's. The $0.30 quarterly dividend should continue, plus a possible extra.
International Paper X	313.7	10.1	3.50	498.4	13.3	7.39	52¾	3.00	5.7	B2	With higher taxes offset by higher average prices, earnings may come close to last year's. The $0.75 quarterly dividend rate is secure.
Kimberly Clark X	38.5[3]	7.7	1.43[3]	142.6[4]	8.4	5.80[4]	48½	2.40[8]	4.9	B2	Higher taxes may reduce earnings moderately below last year's. The $0.60 quarterly dividend rate is amply covered.
Lily Tulip Cup	25.0	7.4	4.80	37.7	9.1	8.87	57¾	2.40[8]	4.2	B2	Expanding markets assure longer term profit gains but higher taxes and additional outstanding stock may reduce current-year profits below last year's. Dividends of $0.62½ quarterly should continue.
Marathon Corp.	68.0[6]	9.3	4.74[6]	68.2	9.5	4.84	47½	2.00[8]	4.2	C+1	Sharp sales increase should result in higher profits. The $0.50 quarterly dividend should continue.
Mead Corp.	52.2[7]	6.0	2.78[7]	93.4	6.8	5.71	26¼	2.20[9]	8.4	C+1	Despite higher taxes, favorable sales may boost profits above those of 1950. $0.40 quarterly may be supplemented by an extra.
National Container	37.8	15.3	2.10	46.6	14.3	2.42	13⅝	.90[8]	6.6	C+1	Profits should be considerably above last year's. Dividends should continue at $0.20 quarterly rate, plus a possible extra.
St. Regis Paper	100.6	9.1	1.71	154.7	7.5	2.10	17¾	.80[8]	4.5	C+1	Impressive sales and improved profit margin should lift profits well above last year's. Dividends at the recently increased $0.25 quarterly rate will doubtless continue.
Scott Paper	61.8	5.5	1.82	97.7	7.3	3.90	53½	2.65[9]	4.9	B2	Larger volume, higher prices should offset rising taxes and hold net close to last year's. The $0.50 quarterly dividend rate should continue.
Sutherland Paper X	26.5	6.2	1.88	39.4	7.0	3.83	26¼	1.30[8]	4.9	B2	Profits will probably come close to last year's despite sharply higher taxes. Dividends on new stock at the $0.40 dividend rate and extra will continue.
Union Bag & Paper	53.4	13.7	4.85	80.3	13.5	7.23	49½	3.00	6.0	B1	Sharply increased sales, improved margins may offset higher taxes and profits may exceed last year's. An extra should again supplement the 50 cents quarterly dividends.
West Va. Pulp & Paper	85.3[6]	9.3	8.36[6]	95.4[5]	12.8	12.93[5]	90½	5.00	5.5	B2	Higher prices and increased output may be offset by rising taxes and profits may drop moderately below last year's. A substantial year-end extra may supplement the $0.50 quarterly dividends.

1—Quarter ended June 30, 1951.
2—Year ended March 31, 1951.
3—Quarter ended July 31, 1951.
4—Year ended April 30, 1951.
5—Year ended October 31, 1950.
6—9 months ended July 31, 1951.
7—24 weeks ended June 17, 1951.
8—Indicated 1951 rate.
9—Plus stock.
10—After conversion of Class "A" stock.

FOR PROFIT AND INCOME

New Highs

Among the stock groups which have long enjoyed exceptional investment popularity, new highs for 1951 or longer have again been recorded by chemicals, oils, rayon issues, tires and natural gas, while the ethical drugs and paper groups have recently "taken a rest". Groups which have joined the parade to higher prices within the last one to six weeks, and which have now attained new tops for the year or longer, are building materials, bituminous coal, copper, containers (metal and and glass), proprietary drugs, electrical equipment, finance companies, corn refiners, lead and zinc, machinery, metal fabricating, office equipment, radio broadcasters, video stocks, motion pictures, telephone and telegraph, and electric utilities.

Variations

At this writing the daily industrial average is roughly 10 points above its intermediate high of last May and about 14 points above its intermedite high of last February. In the case of a number of stock groups, however, the highs of either May or February still stand as major tops, yet to be surpassed. Among others, that is true of woolen goods, floor coverings, soft drinks, most auto and auto parts issues, meat packers, cotton goods, printing and publishing, steel, rails, canned foods, shipbuilding, shoes, aircraft, distillers, rail equipment, department stores, air lines, tobaccos, mail orders, farm equipment, variety stores and sugar.

Records

Groups which are now above all earlier major tops, including those of the landmark year 1929, are oils, chemicals, ethical drugs, fertilizer, machinery, paper, radio broadcasters, mail order, rayon and tires. Groups which are largely or considerably under their 1945-1946 tops are air lines, distillers, soft drinks, glass containers, gold mining, printing and publishing, rail equipment, department stores, variety stores, shoes, sugar, movies, and tobacco. This does not mean that all these are at attractive levels for buying. In most cases, their prospects seem to this column to be either sub-average or nothing to get excited about. It may be interesting to note that the 1929, 1937, 1946 and 1951 highs to date were at successively higher levels only for the mail order group and shipbuilding. On the other hand, each major high to date since 1929 has been at a successively lower level, in the case of the rail group, railroad equipment and tobaccos. For that sort of record there has to be pretty good reasons.

Movies

Of course, at a lowed enough level, almost any stock is a buy, at least for a rebound, a major reversal of trend being something else again. The trouble is that determining a really sold-out level is very difficult. Following a major deflation, a stock may "make a line" for weeks or months, only to go somewhat lower after you assume the risk of buying it. Or it may "stay dead", close to your purchase price, for a long and dreary period. And if you are premature

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Dixie Cup Co.	6 mos. June 30	$3.89	$2.77
Mead Johnson & Co.	6 mos. June 30	.67	.53
Bullard Co.	Jun 30 Quar.	1.38	.44
Goodyear Tire & Rubber	6 mos. June 30	9.32	5.08
Amer. Broadcasting Co.	6 mos. June 30	.28	.11
Consolidated Coppermines	6 mos. June 30	.80	.20
Chesapeake & Ohio Rwy.	7 mos. July 31	2.24	2.05
Goodrich (B. F.) Co.	6 mos. June 30	3.79	2.92
Kennecott Copper Corp.	6 mos. June 30	4.65	3.49
Electric Auto-Lite	6 mos. June 30	3.57	3.47

by even 2 or 3 points, it can make a decisive difference in the profit potentials, since you probably will be equally wrong in trying to guess the recovery top. The performance of motion picture stocks is a case in point. These issues suffered a major deflation, following the industry's World War II prosperity which resulted in a brief period of fat earnings following removal of EPT. Then they "stayed dead" for an extended period, and now have rallied briskly. Whether the recovery will go further, and by how much, this column would not venture to guess. The industry may have felt most of the impact of television in areas with television. But it does much business in areas which either do not yet have television or are far from the television saturation point. At best, the longer-term prospect appears too obscure to be figured with any real confidence. In this writer's view, it is unimpressive for investment purposes.

Values

The copper group now stands about 20% over its 1946 bull market high, about at its 1937 high and about 23% under its 1929 high. These stocks certainly are far from any bargain-counter level. But if you allow for the change for the better in the copper supply-demand situation as compared with earlier periods, for assured high demand for the duration of the defense effort, for the relationship of the leading issues to earnings and dividends for the foreseeable future, and for the depreciation of the dollar—which has to be considered basic in the case of a key industrial raw material—this column must conclude that they are still reasonably priced, and that they may well have a worthwhile further potential. The marginal issues are up more than the best stocks, on a relative basis. The copper strike, ending at this writing, and higher taxes will impinge on 1951 earnings, but not seriously. Both Kennecott and Phelps Dodge are likely to earn at least $8.50 a share this year; and to pay at least $5.50, maybe $6. Kennecott, now around 80, sold at 69 in 1937 on net of only $4.60 a share and $3.50 in dividend. Phelps Dodge, now 70, sold at 60 in 1937 on net of $2.51 a share and $1.60 in dividends. On this, and other comparisons, these stocks appear far from extremely exploited. (See page 670 for detailed discussion of the non-ferrous metals outlook.)

Taxes

If the initial Senate-Finance-Committee version of the tax bill is adopted, the effect, as compared with existing tax rates, will be to cut earnings all the way from 9.4% for companies not subject to EPT up to a maximum of 21% for those who are subject to EPT. Among the former, most have been reserving taxes at rates of 47% to 50%. Most of the latter have done so at the existing ceiling rate of 62% or moderately above it. Probably a relatively small minority have applied the proposed 70% ceiling rate. Excepting in the latter instances, the new taxes retroactive to last January will have the same effect on corporate finances as a capital levy. It will create or complicate working capital problems. That will not be of major importance for large, financially strong corporations, but can be more or less "bothersome" for some others, especially those in a marginal or borderline situation as regards working capital and finances as a capital levy. It will if made retroactive to the start of the year, will present accounting problems. Some companies will revise first-half earnings previously stated, by applying the new rates thereto, as well as to third quarter and second half results, of course. Others may take the full-year increase in the tax burden in the fourth quarter, resulting in sharply lower—and distorted—earnings for that period. It has been important to note tax-rate accruals in second-quarter and first-half earnings reports, as this column has done in its comments on a number of companies. The same will be so of third and fourth quarter reports. They can be misleading if taken at a glance, without reference to tax accounting.

Liquidity

Goodall-Sanford (men's summer suits and textiles) earned $4.02 a share in the fiscal year ended June 30, against only 50 cents a share in the prior year. The stock, around 19½, has responded little to this superficially excellent report. There are three reasons for that. (1) The best earnings—$2.74 a share in the March quarter—are now past history. Only 13 cents a share was earned in the quarter ended June 30; and results in the current quarter, first period of the 1951-1952 fiscal year, will no doubt be unimpressive, since the textile-apparel trade remains slack. (2) As compared with June 30, 1950, financial liquiidty has deteriorated. Cash is down slightly to $1.7 million for a company which did $62.5 million of business during the 12 months under review; inventories are up from $15.2 million to $27.9 million; and bank loans are up from $3.5 million to $11.7 million. (3) For the reasons cited, resumption of dividends, previously expected, will probably be delayed at best and may be ruled out. This instance demonstrates the importance of studying an annual report on a broken down quarter-to-quarter basis, and of studying balance sheets. Even though such sharp changes are rarely foreseeable by the investor or the professional analyst, they at least should not be ignored after the information becomes available.

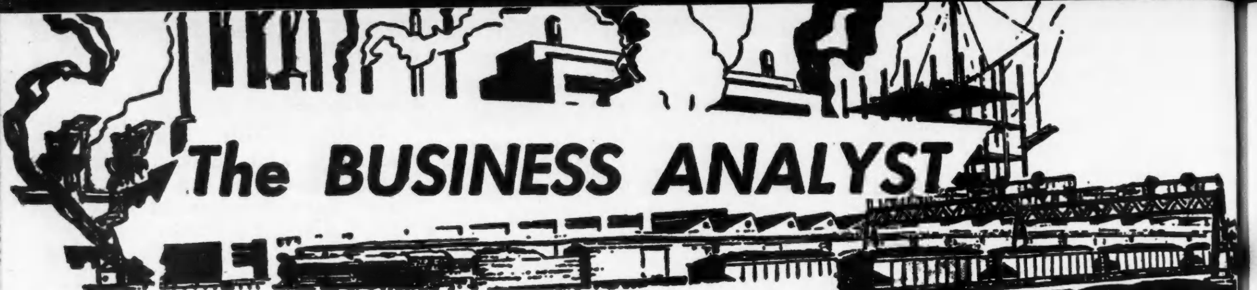
Sun

As we have pointed out before, Sun Oil is a perennial favorite of well-to-do investors because of its unique policy of plowing back the

(*Please turn to page* 692)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

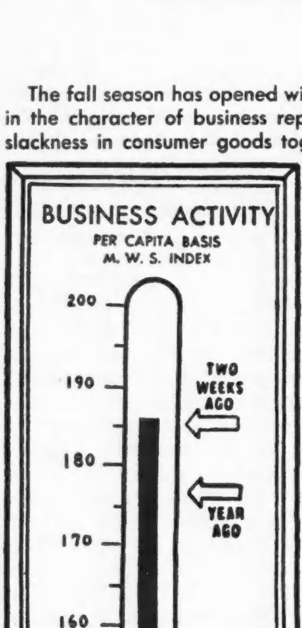
		1951	1950
First National Stores	June 30 Quar.	$ .97	$1.04
McGraw Electric	6 mos. June 30	4.03	4.42
Northern Natural Gas	6 mos. June 30	1.01	1.28
Reynolds Spring	9 mos. June 30	1.04	1.61
Hudson Motor Car	6 mos. June 30	1.02	3.43
Minneapolis-Moline Co.	July 31 Quar.	2.62	2.96
Mohawk Carpet Mills	6 mos. June 30	2.75	4.42
Caterpillar Tractor Co.	7 mos. July 31	3.11	4.89
Erie R.R.	7 mos. July 31	1.79	2.03
Pittston Co.	6 mos. June 30	.83	1.35



What's Ahead for Business?

By E. K. A.

The fall season has opened without any appreciable change in the character of business reports which continue to reflect slackness in consumer goods together with high level activity in most capital goods lines. There are expressions of somewhat great confidence in early revival of laggard lines but so far at least very little to support them. Obviously they are mainly based on the strength of the factors supporting industrial activity, employment and purchasing power which are expected to limit the consumer goods recession, and in the long run to bring about revival of inflationary pressure on prices.



To what extent this may be a realistic prospect remains to be seen. In this connection, much is made of the new production cutbacks in non-essential lines aimed at tailoring industrial operations to the supply of basic metals. Some lines, mostly household appliances, radios, stoves, etc., will be cut to 58% of the pre-Korean production rate compared to a present allowable of 70%. Auto production is to be trimmed to 60% from currently 65%. But many believe that the new cuts won't make much difference since output has already been running below existing allowables because of declining demand.

The "when" of the next inflation surge is therefore considerably in dispute. Previously officially forecast to occur in fall and winter, the threat is now pushed deeper into the future. The conjecture now is that even with deficit spending and new cutbacks in civilian goods, it will be at least next spring before prices may once again start upward in more pronounced fashion, regardless of whatever fall pick-up in business may occur. A seasonal pick-up in coming months is hardly in question. But a real lift, particularly in prices, is hardly in the cards in view of heavy inventories and the caution these inspire.

The latest monthly business survey of the National Association of Purchasing Agents throws an interesting light on nearby prospects. It finds that declines in production and new orders during August have been even sharper than anticipated; that new orders are dropping off even faster than the rate of production; that while inventories have dropped some, buying policy is being reduced to the shortest possible range. Normally, the survey goes on, anticipation of a brisk pick-up in fall business would find August inventories on the rise, with lengthening forward commitments. The survey finds neither of these in evidence and suggests that inventory and materials controls are at least partially responsible. It also adds that any optimism that might be found in the August reports, seems to be based on expectations of business forecasts rather than on any current factors.

That just about sums it up: Inventories remain the big drag and that's something that cannot be remedied in a hurry. It will take time. The desire to buy ahead is further diminished by evidence that shortages will be less, and will come later, than advertised. High prices continue to induce buying resistance since there is greater public apprehension that incomes will not keep up with living costs. Moreover, overbuying has been considerable and has to be worked off.

But there is also another side to the picture. While the slackening in trade is bemoaned, business is still at relatively high levels except when contrasted with the two great buying waves of last summer and last winter. Moreover, the drop has not been progressive; retail sales—seasonally adjusted—have held their ground for about four months. That showing may have been due in no small part to strong promotions designed to work off inventories. This effort is bound to continue. Merchants seem willing to forget the sales marks for the year to-date and concentrate on potentials for the remainder of the year. In this endeavor, the seasonal factor is in their favor.

It is postulated that record employment at high wages holds the key to consumer demand for the rest of the year. But it should also be noted that while employment is high, labor is increasingly restive in many areas, for many plants are running short time due to lack of orders and materials. Defense business is not yet filling the gap.

This situation may be remedied progressively, but hardly rapidly—the latter particularly in view of the further cutbacks in consumer durable goods lines slated for the fourth quarter which is bound either to create some new unemployment or else further reduce working hours. It is one reason why no sharp boost in aggregate personal incomes is likely soon.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The Treasury has resumed the quest for "new money" as Secretary Snyder requested bids on $1.2 billion of 91-day bills for cash and in exchange for a $1 billion issue that matures September 13. The borrowing program had been interrupted in mid-August when the bill rate rose to $1.660% on an annual basis and the supply of short-term funds seemed about exhausted. Some easing of the bill rate has occurred since then and current quotations are around 1.645%. With the Treasury's cash balance at the end of August close to the $5 billion level that the Secretary has set as a minimum, a quick build-up of cash has evidently been thought necessary to tide the Treasury over until September tax collections alleviate the situation, at least temporarily. In addition it is hoped that the current savings bond selling drive will also prove to be a success. The government's refunding plans are becoming clearer with the offer of 1⅞% 11-month certificates to holders of $755 million of 3% bonds called for payment on September 15 and of the $1.9 billion of 1¼% notes due October 1. The new certificates indicate no change from previous financing as a similar 1⅞% certificate was offered in mid-July to holders of a $5 billion issue maturing at that time. These certificates are now selling at a small premium to yield 1.65% to maturity. The country's money supply has been expanding again and totalled $176 billion on July 25. This includes bank deposits plus currency outside of banks and compares with the peak of $176.9 billion reached on December 30 last year. Last year's high was followed by a decline to $172.5 billion on March 28, mostly the result of tax payment withdrawals. Demand deposits on July 25 totalled $90.8 billion against $89 billion on March 28 and $86.5 billion a year ago. For late figures we must be satisfied with the reports of the large city member banks which hold about 55% of total demand deposits. These banks report an expansion of some $500 million in the latter category of liabilities in the five weeks since July 25 while their loans have increased by about $400 million during the same period. The nation's gold hoard which was receding rapidly earlier this year has stabilized and now stands at $21.85 billion against the low of $21.75 billion on May 2 of this year. The cessation of gold losses betokens an improved trade balance and the reversal of the flight from the dollar. The government bond market has been idling in the past two weeks and the bank-eligible 2½'s of 1967-72 closed at 100-1/16 on September 10 against a price of 100-6/16 two weeks earlier. This compares with the low of 98-1/16 reached at the end of June. The two-point improvement in prices occurred despite sales of long term governments by the Federal Reserve system as their holdings of government bonds have fallen by almost $1 billion since June 27.

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TRADE—A slight improvement in consumer buying has been noted lately and this was encouraged by promotional sales of fall merchandise and widespread clearances of summer goods. The improvement appeared to benefit a number of lines with apparel, furniture, refrigerators, and food departments all reporting somewhat better demand.

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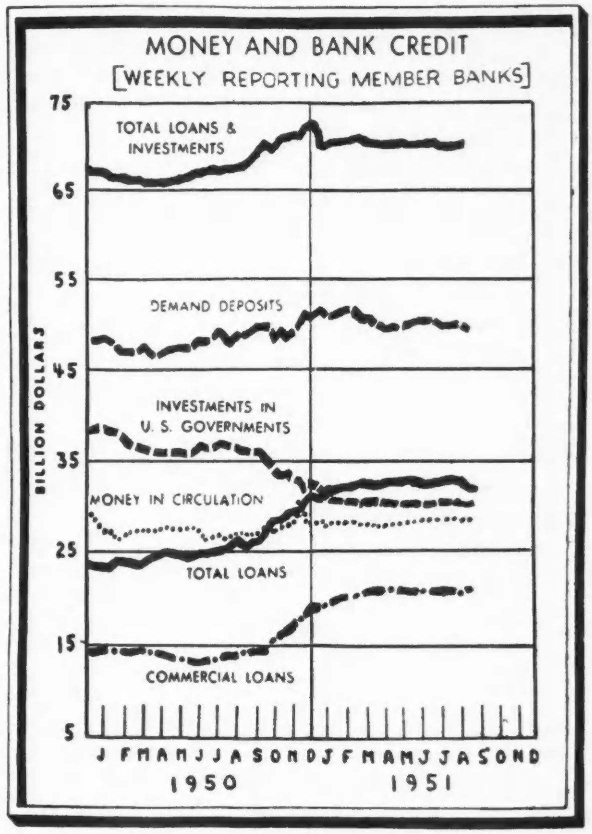
INDUSTRY—Industrial production has been on an even keel during the past two weeks at a level well above July output. The MWS Index of Business Activity stood at 186.8 in the week



ending September 1 and this compares with 186.6 two weeks ago and a July average of 179.6. Production of crude oil and electric power have continued to rise during the past two weeks while there has been a slackening in freight car loadings and paperboard output. Lumber shipments and steel production have held rather steady during the period.

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COMMODITIES—Commodity prices have been stable in the past fortnight with futures continuing to be stronger than spot prices. Thus the MWS Index of spot commodities reached its low for the year on August 31 and has rallied but little since then while the Dow Jones futures index made its low for the year in mid-July and had since recovered about ⅛ of the 39 point drop from the year's high made in February.

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NEW CONSTRUCTION was valued at $2,802 million in August compared with July's figure of $2,770 million, according to a joint report of the Commerce Department and the Bureau of Labor Statistics. Increased outlays for factory, atomic energy and military installations more than offset decreases in home and store construction during the month. Expenditures for military construction amounted to 6½ times the figure of a year earlier, while industrial plant building had

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Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Aug.	3.0	3.0	1.1	1.55
Cumulative from mid-1940	Aug.	425.1	422.1	398.4	13.8
FEDERAL GROSS DEBT—$b	Sept. 7	256.6	256.6	257.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Aug. 29	51.0	50.3	49.0	26.1
Currency in Circulation	Sept. 5	28.3	28.0	27.3	10.7
BANK DEBITS					
New York City—$b	Aug. 29	8.7	9.7	13.2	4.26
93 Other Centers—$b	Aug. 29	13.7	14.7	13.9	7.60
PERSONAL INCOMES—$b (cd2)	July	251.6	251	223	102
Salaries and Wages	July	166	166	143	66
Proprietors' Incomes	July	49	48	45	23
Interest and Dividends	July	20	20	18	10
Transfer Payments	July	13	13	12	3
(INCOME FROM AGRICULTURE)	July	22	21	19	10
POPULATION—m (e) (cb)	July	154.4	154.1	151.7	133.8
Non-Institutional, Age 14 & Over	July	108.9	108.8	109.5	101.8
Civilian Labor Force	July	64.4	63.8	64.4	55.6
unemployed	July	1.9	2.0	3.2	3.8
Employed	July	62.5	61.8	61.2	51.8
In Agriculture	July	7.9	8.0	8.4	8.0
Non-Farm	July	54.6	53.8	52.8	43.8
At Work	July	56.6	59.2	54.2	43.2
Weekly Hours, non-farm	July	42.3	41.7	37.7	42.0
Man-Hours Weekly—b	July	2.31	2.24	2.04	1.82
EMPLOYEES, Non-Farm—m (lb)	July	46.4	46.4	44.1	37.5
Government	July	6.4	6.4	5.7	4.8
Factory	July	12.9	13.0	12.2	11.7
Weekly Hours	July	40.4	40.8	40.5	40.4
Hourly Wage (cents)	July	159.8	160.1	146.2	77.3
Weekly Wage ($)	July	64.56	65.32	59.21	21.33
PRICES—Wholesale (lb2)	Sept. 4	176.7	176.8	168.3	92.5
Retail (cdlb)	June	206.8	205.7	185.7	116.2
COST OF LIVING (lb3)**	July	185.5	185.2	172.0	100.2
Food	July	227.7	226.9	208.2	113.1
Clothing	July	203.3	204.0	184.6	113.8
Rent	July	136.2	135.7	131.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	June	11.9	12.1	11.7	4.7
Durable Goods	June	3.8	4.0	4.2	1.1
Non-Durable Goods	June	8.0	8.1	7.5	3.6
Dep't Store Sales (mrb)	June	0.86	0.85	0.84	0.39
Retail Sales Credit, End Mo. (rb2)	June	11.0	11.0	10.3	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	July	20.7	23.2	22.2	14.6
Durable Goods	July	10.0	12.0	10.6	7.1
Non-Durable Goods	July	10.8	11.2	11.7	7.5
Shipments—$b (cd)—Total	July	19.8	22.4	18.7	8.3
Durable Goods	July	8.9	10.7	8.0	4.1
Non-Durable Goods	July	11.0	11.7	10.7	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	70.7	70.5	54.2	28.6
Manufacturers'	July	40.4	40.0	30.0	16.4
Wholesalers'	July	11.7	11.9	9.5	4.1
Retailers'	July	18.6	18.7	14.7	8.1
Dept. Store Stocks (mrb)	July	2.8	2.8	2.1	1.2
BUSINESS ACTIVITY—1—pc	Sept. 1	186.8	187.1	177.5	141.8
(M. W. S.)—1—np	Sept. 1	218.0	218.2	208.2	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 679)

more than doubled. Public construction expenditures of $937 million topped July's $899 million while private residential building dropped to $920 million from $937 million the previous month. Total construction in the first eight months of this year approximately $19.5 billion which was almost 12% higher than the $17.5 billion outlay for the same period a year ago. Private new construction at $13.7 billion was up 5% over last year and new public construction totalling $5.8 billion showed a 31% rise over last year's outlays.

* * *

GAS SALES in the month of June were 10.8% higher than in June a year ago and totalled 3,247 million therms according to data of the American Gas Association. **NATURAL GAS** sales amounted to 3,007 million therms which topped the year-ago figure by 12.3% while sales of manufactured and mixed gas totalling 239 million therms were down 4.9% from June of last year. The changes reflect conversions in some large cities to the use of natural gas. For the twelve months ending June 30, 1951, gas sales rose 16.3% over the previous corresponding period. Natural gas sales showed an 18.2% rise during the period while manufactured and mixed gas dipped 3.3%.

* * *

Nation-wide **ADVERTISING VOLUME** gained 6% in July over June and stood 32% above July 1950, according to the compilations of Printer's Ink. The best gains over June were shown by magazines and newspapers, up 5% and 4% respectively, while radio, outdoor advertising and business papers reported slight losses and television volume was unchanged. Compared to a year ago, television advertising showed a spectacular jump of 439% followed by business papers and magazines, each up 16%.

* * *

Consumption of **NEW RUBBER** during the month of July decreased 8.3% to 98,249 long tons from the 107,135 long tons consumed in June, according to the monthly report of the Rubber Manufacturers Association. Consumption of natural rubber dropped 11.55% during the period to 35,-903 long tons while synthetic rubber use at 62,346 long tons was down 6.31%. July rubber usage was also 6.51% below that of a year earlier. A precipitate drop in natural rubber use amounting to 41.53% occurred during the period while synthetic rubber consumption has risen by 18,659 long tons or 42.71% since July 1950.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	July	215	222	196	174
Mining	July	160	167	144	133
Durable Goods Mfr.	July	267	276	235	220
Non-Durable Goods Mfr.	July	189	197	181	151
CARLOADINGS—t—Total	Sept. 1	829	839	852	833
Misc. Freight	Sept. 1	394	392	298	379
Mdse. L. C. L.	Sept. 1	76	75	91	156
Grain	Sept. 1	52	54	51	43
ELEC. POWER Output (Kw.H.) m	Sept. 1	7,146	7,079	6,459	3,267
SOFT COAL, Prod. (st) m	Sept. 1	10.5	10.8	11.0	10.8
Cumulative from Jan. 1	Sept. 1	348	337	323	44.6
Stocks, End Mo.	July	74.1	77.0	52	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 1	6.2	6.2	5.8	4.1
Gasoline Stocks	Sept. 1	115	116	106	86
Fuel Oil Stocks	Sept. 1	48	47	41	94
Heating Oil Stocks	Sept. 1	87	86	69	55
LUMBER, Prod.—(bd. ft.) m	Sept. 1	550	605	645	632
Stocks, End Mo. (bd. ft.) b	July	7.5	7.1	6.2	12.6
STEEL INGOT PROD. (st) m	July	8.70	8.66	8.08	6.96
Cumulative from Jan. 1	July	61.0	52.3	55.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 6	160	257	256	94
Cumulative from Jan. 1	Sept. 6	9,967	9,807	8,261	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 1	185	188	317	165
Cigarettes, Domestic Sales—b	July	30	32	30	17
Do., Cigars—m	July	422	503	401	543
Do., Manufactured Tobacco (lbs)m	July	16	19	16	28

PRESENT POSITION AND OUTLOOK

Production of finished **PORTLAND CEMENT** in July amounted to 22,439,000 barrels, an 8% rise from the 20,709,000 barrels produced a year earlier, according to an announcement by the U. S. Bureau of Mines. **SHIPMENTS** of 24,266,000 barrels topped output with the result that **MILL STOCKS** continued to decline and amounted to 14,612,000 barrels on July 31 against 16,439,000 barrels a month earlier. July 31 stocks, however, were still 14% higher than the amount on hand a year ago.

* * *

Producers' **RAYON SHIPMENTS** to domestic consumers during July totalled 106,900,000 pounds, a drop of 2½% from June but still above the 105.5 million pounds shipped in July a year ago. Producers' **STOCKS** on hand at the end of July were sharply above June 30 figures and amounted to 24.3 million pounds against 16.9 million the month before. The increase in inventories reflected the decline in mill buying of rayon during July while manufacturers were willing to continue high output levels to build up depleted stocks.

* * *

Factory sales of **WASHING MACHINES** declined sharply in July to 139,799 units, a 44.8% drop from June's sales of 253,119 units, according to the American Home Laundry Manufacturers Association. July 1951 sales were also down 50.5% from the results for the same month last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

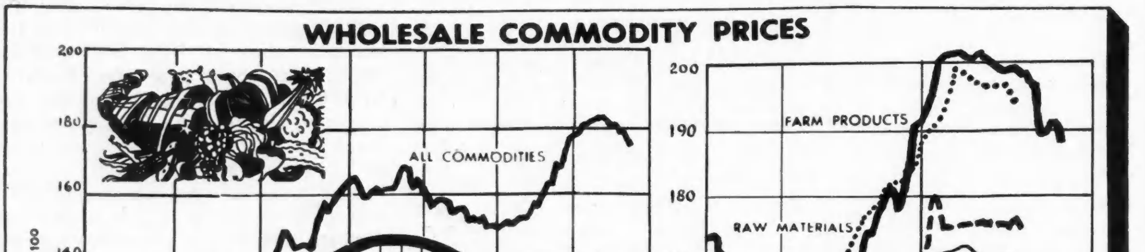
No. of Issues (1925 Cl.—100)	1951 Indexes			Sept. 7
334 COMBINED AVERAGE	197.2	172.6	193.9	197.2A
4 Agricultural Implements	292.7	246.5	281.0	288.4
10 Aircraft ('27 Cl.—100)	333.0	252.8	302.1	314.5
7 Air Lines ('34 Cl.—100)	764.7	634.0	705.9	719.0
8 Amusements	102.7	86.6	99.1	102.7A
10 Automobile Accessories	257.6	216.2	246.1	246.1
11 Automobiles	46.3	36.1	40.2	40.6
3 Baking ('26 Cl.—100)	23.2	21.0	21.8	22.0
3 Business Machines	401.3	300.8	392.5	401.3A
2 Bus Lines ('26 Cl.—100)	183.1	150.6	154.0	154.0
6 Chemicals	427.8	326.0	414.8	418.0
3 Coal Mining	18.3	13.2	14.9	14.4
4 Communications	72.5	58.3	68.8	70.6
9 Construction	69.5	60.2	68.3	69.5
7 Containers	479.7	376.5	472.4	479.7A
9 Copper & Brass	156.2	126.3	152.3	156.2A
2 Dairy Products	83.4	75.9	80.8	82.4
5 Department Stores	84.5	66.0	74.7	74.7
6 Drugs & Toilet Articles	235.0	213.6	222.1	224.2
2 Finance Companies	308.1	243.0	303.2	305.6
7 Food Brands	200.9	171.4	185.9	187.8
2 Food Stores	118.4	103.8	109.4	110.5
3 Furnishings	75.0	65.7	67.0	67.0
4 Gold Mining	724.1	579.3	679.5	679.5

(Nov. 14, 1936, Cl.—100)	High	Low	Aug. 17	Sept. 7
100 HIGH PRICED STOCKS	122.1	107.1	120.0	122.1A
100 LOW PRICED STOCKS	245.8	208.6	235.2	239.0
5 Investment Trusts	97.2	84.8	93.9	97.2A
3 Liquor ('27 Cl.—100)	1202.0	1066.6	1146.9	1181.3
11 Machinery	210.2	177.7	206.4	210.2A
3 Mail Order	152.0	125.3	134.6	137.3
3 Meat Packing	109.1	85.7	94.0	93.0
13 Metals, Miscellaneous	290.0	233.0	282.6	290.0A
4 Paper	416.9	344.3	410.2	416.9A
29 Petroleum	443.8	355.0	429.6	443.8A
30 Public Utilities	152.8	142.5	151.4	152.8
9 Radio & TV ('27 Cl.—100)	31.4	26.6	29.1	29.1
8 Railroad Equipment	73.8	57.5	65.0	65.7
24 Railroads	45.4	34.2	39.7	41.2
3 Realty	41.0	34.3	37.8	39.0
3 Shipbuilding	181.0	139.1	167.6	172.6
3 Soft Drinks	395.5	320.3	330.5	327.1
15 Steel & Iron	169.5	134.1	156.2	159.2
3 Sugar	77.6	66.5	74.7	74.7
2 Sulphur	551.2	425.3	551.2	538.2
5 Textiles	223.6	191.3	203.4	213.5
3 Tires & Rubber	71.4	51.2	70.4	71.4A
6 Tobacco	86.1	75.3	81.8	81.0
2 Variety Stores	320.7	301.1	316.4	319.5
20 Unclassified ('49 Cl.—100)	127.3	109.4	122.0	122.0

A—New High for 1951.

Trend of Commodities

Unfavorable developments in Korea and Iran have failed to awaken any great buying interest in commodity markets with the result that futures trading has been lackadaisical and price changes narrow although grains have improved during the past two weeks while wool futures have fallen to new lows. May wheat rose 2½ cents in the past fortnight and closed at 248 on September 10. Exports under the International Wheat Agreement are making a good showing and visible supply at 202,554,000 bushels is lower than last year's 223,436,000 bushels. Domestic flour business has improved while unfavorable Canadian crop reports have also been a factor. May corn has risen 3¾ cents since August 27 and closed at 175⅞ on September 10. The main influence appeared to be reports of unfavorable weather and crop damage is feared. Commodity Credit Corp. holdings of corn totalled 413,422,681 bushels on June 30 with non-recourse loans outstanding on an additional 129,676,317 bushels. Government loans on the new crop will be at 90% of parity and this is expected to work out to a level of approximately $1.76 at Chicago. The U.S. Department of Agriculture estimates the new cotton crop will total 17,291,000 bales, based on conditions as of September 1. This is a slight increase from the August 1 estimate and compares with last year's production of 10,012,000 bales. Secretary Brannan has forecast domestic consumption for the season ending July 31, 1952 at 10.5 million bales plus 5.5 million bales in exports. This would mean an increase of only about 1 billion bales in the end-of-season carry-over. However, in view of heavy cotton goods inventories, falling demand and larger production in foreign countries, these consumption estimates would appear to be optimistic.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Sept. 10	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec 6 1941
28 Basic Commodities	324.5	323.8	354.0	329.6	156.9
11 Imported Commodities	335.3	335.4	378.6	350.2	157.3
17 Domestic Commodities	317.8	316.6	339.0	316.9	156.6

	Date Aug. 27	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
7 Domestic Agriculture	343.1	351.6	377.9	361.0	163.9
12 Foodstuffs	367.7	367.5	379.9	371.2	169.2
16 Raw Material	304.9	295.4	339.8	307.5	148.2

14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	174.8	134.2	126.4	93.6	58.7	61.6	57.5	64.7

Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Gulf Oil has reported discovery in a wild-cat well in Western Canada, which indicates that the company may have a discovery of major proportions. Gulf, through its subsidiary Canadian Gulf Oil Company, has been a pioneer in the exploration for and production of oil in Western Canada. Gulf's holdings in Alberta are approximately 4,280,000 acres. In Saskatchewan it has 890,000 acres and in Manitoba 362,000 acres. In addition, it has a one-quarter holding in British Columbia, amounting to 3,1000,000 acres.

In an effort to ease a critical nation-wide shortage of castor oil, **American Cyanamid Company** has developed a new product which contains no castor oil. Developed to meet military requirements for a fast-drying durable finish for ammunition, the resin may be used in a variety of air drying and baking applications. Finishes produced with this new resin combine rapid-drying characteristics, good color, gloss and useful film properties.

Final arrangements have been completed between **The Glenn L. Martin Company** and **The Hudson Motor Car Company,** whereby Hudson, under sub-contracting arrangements from Martin, will engineer, tool and manufacture rear fuselage and tail sections for the twin-jet Canberra night intruder bomber which will be built in substantial quantities for the US Air Force. The Martin Company announced last June that it would place $52 million in new business with sub-contractors this year. The work to be done by Hudson is not included in that total. Hudson has already started necessary engineering on the new Martin work and delivery of finished components will begin next year. The new defense production will not affect the company's normal output of automobiles.

Commercial production of Cortisone has been started by **Glidden Company** at its Soya Products Division's Fine Chemicals Laboratory in Chicago. Production of the scarce drug is used in the treatment of rheumatoid arthritis comes after four years of intensive research by Glidden chemists. All of Glidden's output of Cortisone has been sold to pharmaceutical manufacturers, by whom it will be prepared for use by hospitals and physicians either in form for hypodermic or oral treatment. Regarding Gliddens' commercial output of Cortisone, it is stated that the company has been adding to its hormone production facilities in Chicago for the past six months and that further facilities are expected to be necessary as production increases.

As part of a nationwide effort by industry to meet expanding defense and essential civilian requirements for petroleum raw products and materials, such as high octane gasoline, **The Davison Chemical Corporation** will erect one of the largest catalyst plants in the United States on the Calcasieu River, six miles south of Lake Charles, La. The site will provide for production of other chemicals in addition to catalysts. Cost of the plant is estimated at about $7 million. Scheduled for operation early in 1953, it will have facilities for producing synthetic fluid petroleum cracking catalyst sufficient to process nearly 600,000 barrels of petroleum stocks per day, based on average refinery use of cracking catalysts. The Gulf Coast area in the past few years has had a tremendous expansion not only in petroleum refining, but also in chemical processing plants employing the end products of catalytic cracking.

Pennsylvania Railroad has reported that 90% of its program, undertaken in most part a year ago, to build and rehabilitate a total of 60,000 freight cars has now been completed. About 54,000 new and rehabilitated cars, 27% of the company's freight cars, have now been placed in service. New gondolas, box and flat cars, totalling 14,500 have been delivered as part of the road's orders for 20,250 new freight cars. These are in addition to 6,600 built in Pennsylvania's own shops on earlier orders. Thirty three thousand rehabilitated box cars, gondolas and hopper cars, turned out in the railroad's shops, have also been put back into service. The entire program, involving 60,000 cars will be finished, it is estimated, in a few months. Inauguration of another program for additional new equipment and accelerated rehabilitation is under consideration, and will be progressed as increased earnings and traffic justify.

The structure of **National Gypsum Company's** new paper mill at Pryor, Oklahoma, is about 75% complete and completion of the building is expected in October, with machinery installation completed by December. The new plant, planned to integrate western operations, will supply National Gypsum's plants in Iowa, Texas and Kansas. The Pryor mill, designed by the company's own engineering staff, will produce a special paper liner used in the manufacture of fireproof gypsum board products, including gypsum lath, wallboard and exterior sheathing.

Continental Motors Corporation expects to produce in the fiscal year ending Oct. 31, approximately 475,000 engines for its civilian customers and the armed services. The company's plants are operating on a high volume basis and sales are currently exceeding $15 million a month against an unfilled order backlog of $250,000,000 million. The company has also been tooling and placing in volume operation a large plant devoted exclusively to the manufacture of three engines of 375, 500 and 810 horsepower for use in tanks and other front-line vehicles. Through a subsidiary, the Continental Aviation and Engineering Company, there have been established facilities

for manufacture of a 525-horse power radial engine for helicopters.

A completely automatic marine pilot system has been developed by **The General Electric Company** which unerringly follows any course it receives from a human or automatic source. Where a helmsman frequently overcontrols the rudder in wind, swells and currents, the auto-pilot follows its course with an average variation of less than one-half a degree. Another advantage is the almost complete lack of maintenance required on auto-pilot as compared with other automatic steering systems.

Details of a building program that will boost facilities for production of life-saving penicillin and streptomycin at Schenley Laboratories, a subsidiary of **Schenley Industries, Inc.** have been published. The laboratory is a pioneer producer of penicillin and currently is one of the largest prime producers of the drug in addition to manufacturing streptomycin.

One of the most interesting developments in regard to expansion of defense activities by important American industrial concerns is the new J-48 jet aircraft engine plant to be built and operated by **Chrysler Corporation** for the U. S. Navy. The Navy has announced that the plant is scheduled for operation by early 1953. The plant, unequipped, will cost in the neighborhood of $30 million, but when ready for operation, will cost many times that amount. Chrysler Corporation has already received an initial contract of $91 million to build, equip and operate the plant. It will be known as the Chrysler Jet Engine Plant and will be owned by the U. S. Navy. This type of power plant is already in use by the Navy in its latest model Gruman Panther fighter and by the Air Force in its Lockheed F-94-C all-weather interceptor fighter.

American Locomotive Company has delivered the first two of an order of ten new design 1600 horse power diesel-electric road switching locomotives to the **Atchison, Santa Fe & Topeka Railroad.** The new six motor locomotives will be placed in service in different locations on the Santa Fe system. The engines are now being treated with a dynometer car on the Southern Division of the Gulf Lines to determine their exact pulling power for the purpose of establishing tonnage ratings. The American Locomotive Company is now also in full process of manufacture of the Army's newest medium tank at its Schenectady plant. More than 1500 subcontractors are producing parts for the new tank. During World War II, American Locomotive turned out over 6000 tanks.

Illustrating the pains to which leading pharmaceutical companies go to establish the efficacy of their new products is the fact that **Abbott Laboratories** supplied nearly five million tablets of an expensive new drug to physicians without charge over a four-year period before a single tablet was placed on the market. The new product is known as Phenurone. It was discovered early in 1947 and has been undergoing extensive clinical tests in the treatment of selected cases of epilepsy.

Extending its program of dieselization, **New York Central** will improve passenger service on its Buffalo division between Buffalo Central Terminal, Niagara Falls and Suspension Bridge, New York. A new air-conditioned, streamlined train will replace most of the local trains now pulled by steam locomotives. The New York Central already has four other trains of this new type in service, four on its Boston & Albany line, two between Harmon and Peekskill and one between Detroit and Midland, Mich.

Purchase of the St. Thomas, Ontario Works of Allis-Chalmers Rumely, Ltd., by Canadian Allis-Chalmers has been completed. Both firms are subsidiaries of **Allis-Chalmers Manufacturing Company.** Allis-Chalmers Rumley is primarily a tractor and farm implement sales organization for tractor division products. St. Thomas Works manufactures products of the general machinery division and Canadian Allis-Chalmers is engaged in manufacturing other general machinery products. It is considered advantageous to have all Canadian manufacturing operations of the general machinery division under one management.

A new safe preservative for textiles and other materials subject to micro-organisms has been developed by **Dow Chemical Company.** Wide use of the product is foreseen to treat fabrics for tents, tarpaulins and other goods subject to outdoor exposure for both military and civilan users. The new compound has been approved by the Office of the Quartermaster General, and is only one of many recently developed and placed on the market by the company.

Koppers Company, Inc. has been awarded a contract for the engineering and construction of a battery of 61 new chemical-recovery coke ovens by Dominion Steel & Coal Corp. of Nova Scotia. About two years ago, Koppers completed and put into operation a 53-oven battery for Dominion. In addition, Koppers has been awarded a contract by United States Steel Corporation for engineering and constructing three new batteries of chemical-recovery coke ovens at Clairton, Pa.

The eighteenth huge East-Pittsburgh built generator placed in operation at the Grand Coulee Dam by **Westinghouse Electric Corporation** will permit full operation of the immense project. With the giant generators operating at peak capacity, Grand Coulee will be able to supply nearly 2,235,000 kilowatts, approximately enough power to meet the combined needs of Chicago and San Francisco. In addition to supplying power to drive the Hanford, Wash. atomic energy installation, aluminum plants at Spokane and scores of other industries throughout the Pacific Northwest, the Coulee power next year will begin pumping millions of gallons of water to irrigate thousands of now arid land. Westinghouse also built four of the world's largest motors (65,000) horsepower to drive pumps for this tremendous irrigation job.

Copper Range Company, which has one of the largest undeveloped copper ore bodies in North America, located on the upper Michigan peninsula, is having difficulties in securing loans to develop this property. Recently its application of an approximately $60 million loan was turned down by the Reconstruction Finance Corp. However, the company is going forward with other United States agencies in connection with the required loan. Owing to the critical shortage of the red metal, the company hopes to get its loan approved finally.

The Reversal in Gold Movements

(Continued from page 659)

much the same way as we bid for foreign raw materials and merchandise. Many people thought that the output of consumer durable goods would be quickly affected by our defense production activities. Others were simply distrustful of the dollar, and hence proceeded to spend it as soon as they earned it.

This phase of the post-Korean buying is now over. Latin Americans, for example, are no longer buying just anything. Much as our own businessmen, they have become very cautious in their new ordering. Many dealers in Mexico and Cuba appear to be stuck with automobiles, household appliances and other consumer durable goods, either because of credit restrictions (quite severe in Mexico) or simply because a lot of purchasing power has evaporated with the decline of raw material prices.

In more recent months, exports seem to have been bolstered by heavy buying of all kinds of our goods, ranging from cotton to irrigation pumps, reflecting a high level of business activity abroad and, of course, rearmament activities. In the last few months, Canadian purchases in this country have been running at an annual rate of some $3.0 billion, or almost $1 billion more than before Korea. Latin American purchases at a rate of about $3.5 billion a year during the second quarter were also about $1 billion larger (annual rate) than before Korea. The exports to Western Europe, reflecting an increase in shipments under the Mutual Defense Assistance Program, are at least $1.5 billion (annual rate) larger than before Korea.

As a result of this expansion in our exports which is still going on, the deficit in our international payments during the first nine months of the Korean campaign probably changed into a small surplus during the second quarter of 1951. This surplus has apparently grown larger during the current third quarter.

What about the future? Obviously we are entering a phase of the defense economy in which our trade relationships with foreign countries will be no longer characterized first by a run on available goods and then an almost equally abrupt stoppage of purchases while inventories are being worked off. Does the return to more or less pre-Korean trade relationships—except in respect to non-ferrous metals, steel, and military equipment—mean a re-emergence of the dollar shortage problem?

As always, the situation is likely to differ from continent to continent and from country to country. Take Continental Western Europe, for example. In the past two years, ECA aid from the United States (plus the conditional sterling credits to EPU) were sufficient to offset the trade deficit and permit substantial addition of gold and dollars to Western European reserves. Although these countries will receive considerable assistance for defense under the MDAP Program, ECA aid will be cut sharply.

Not Enough Export Goods

Moreover, despite a great expansion of their productive activities, the countries of Western Europe apparently will *not have enough goods for export* to pay for (1) the additional cost of their imports, (2) increased raw material requirements needed in their defense programs, and (3) greater imports of food stuffs and consumer goods to satisfy the mounting purchasing power of their populace. At any rate, these countries are bound to need our assistance. in overcoming the bottlenecks in their steel and coal production.

As a matter of fact, our coal exports, already at a high level, are expected to set new post-war records. It is estimated that the tonnage likely to be exported this year will be about twice as large as in 1950, when some 26 million tons of coal were shipped abroad. With the second largest U.S. cotton crop on record to be harvested, European purchases of our cotton, abnormally low during the past season, are also bound to increase.

All this is likely to mean that during the coming months Western European nations will be dipping into their reserves of gold and dollars either to pay for increased imports from the United States or from countries producing raw material and foodstuff surpluses. As will be seen from the second table, these reserves are roughly $500 million larger than they were prior to September 1949 devaluations, but none too comfortable, with the exception of Switzerland and Belgium. There was already a considerable decline in Italian and Dutch dollar holdings. It may be mentioned in this connection that the free market for French francs, Italian lire, and Dutch guilders is currently near the lowest points recorded since September 1949.

The deficit in our trade with Latin America of nearly $400 million from July 1950 to March 1951, changed into an export surplus of about $80 million during the second quarter of 1951. It remains to be seen, however, to what extent Latin America will draw on its gold and dollar reserves, which as of last June stood at around $3.6 billion, about $800 million up from September 1949. Considering the price changes, the volume of our imports from Latin America is now actually below the pre-Korean level and is unlikely to drop much more. On the other hand, our exports of non-essentials and consumer goods to Latin America will probably fall off in view of large inventories there. However, our exports of machinery, tools, industrial raw materials (steel) and chemicals should increase, particularly as some of these items are likely to be unobtainable in Europe.

However, Great Britain, which is faced with a serious deterioration of her balance of payments as a consequence of a rise in prices and stepped-up defense expenditures, wants the overseas sterling area countries to use the dollar and gold reserves cautiously. Doubtless Chancellor Gaitskell is urging patience and cooperation at the Washington Conference of the Commonwealth Financial Ministers. Adds the London Financial Times: "Britain could hardly accept an assessment based on its relatively favorable eco-past."

With or without heavy orders from the overseas sterling area countries, the immediate prospects point to maintenance of our exports around the present level of about $16 billion a year. If this rate is maintained, the year 1951 is likely to be our best export year. The record year thus far was 1947, during which $15.3 billion of American goods were exported.

The New Boom In Machine Tools

(*Continued from page* 669)

reality, a composite of many different trades manufacturing a very considerable variety of products which are quite dissimilar in nature and use. Most companies in this field are not large, many in fact are medium- or small-sized.

Aside from several miscellaneous classifications there are four main branches: 1) power-generating machinery, 2) construction and conveying machinery, 3) well-digging and pumping equipment, and 4) power-driven metal working machinery. There is another small but highly important group, that makes steel mill equipment. From the investor's point of view, it is more convenient to think of these groups as being manufacturers either of heavy industrial machinery or of machine tools, the other subdivisions falling more or less into these two classifications.

The heavy machinery business is now enjoying a boom but the outlook is that demand will not approach the feverish proportions of World War II. Defense and semi-defense demands for this type of equipment are held down because the military are still in possession of large amounts of equipment left over from the last war. Therefore, no great surge in orders is looked for from such sources though demand is building up from the Atomic Energy Commission and ECA. The outlook generally is for favorable business but not of huge dimensions.

Among the prominent companies in this group are Babcock & Wilcox, Chicago Pneumatic Tool, Fairbanks Morse, Foster Wheeler, Ingersoll-Rand and Link Belt. To these should be added the two steel equipment manufacturing companies, Mesta Machine and United Engineering & Foundry. Of the companies mentioned here, those standing out with a good record of earnings and dividends for years are the four following: Babcock & Wilcox, Ingersoll-Rand, Mesta Machine and United Engineering. These companies, unlike many others in the machinery field, have achieved a comparatively impressive degree of stability. This is a noteworthy achievement in an industry characterized by violent swings between prosperity to depression, and qualifies them for a semi-investment rating.

In the machine tool industry which is approaching maximum production and will hold this level for at least another year, the major companies are showing sizeable increases in net income though at a rate lower than would have been the case were it not for EPT impacts. However, examination of our table will show that this group is doing better than most of the others in the machinery field. The principal companies in this field are: Bullard, Cincinnati Milling Machine, Monarch Machine Tool, National Acme, Niles-Bement-Pond and Van Norman Company. Of these issues, Cincinnati Milling seems the most attractive based on steadiness of earnings in a generally volatile industry, and also on a favorable financial position, with current assets five times current liabilities.

It must be remembered that the

(*Please turn to page* 688)

The Reversal in Gold Movements

(Continued from page 659)

much the same way as we bid for foreign raw materials and merchandise. Many people thought that the output of consumer durable goods would be quickly affected by our defense production activities. Others were simply distrustful of the dollar, and hence proceeded to spend it as soon as they earned it.

This phase of the post-Korean buying is now over. Latin Americans, for example, are no longer buying just anything. Much as our own businessmen, they have become very cautious in their new ordering. Many dealers in Mexico and Cuba appear to be stuck with automobiles, household appliances and other consumer durable goods, either because of credit restrictions (quite severe in Mexico) or simply because a lot of purchasing power has evaporated with the decline of raw material prices.

In more recent months, exports seem to have been bolstered by heavy buying of all kinds of our goods, ranging from cotton to irrigation pumps, reflecting a high level of business activity abroad and, of course, rearmament activities. In the last few months, Canadian purchases in this country have been running at an annual rate of some $3.0 billion, or almost $1 billion more than before Korea. Latin American purchases at a rate of about $3.5 billion a year during the second quarter were also about $1 billion larger (annual rate) than before Korea. The exports to Western Europe, reflecting an increase in shipments under the Mutual Defense Assistance Program, are at least $1.5 billion (annual rate) larger than before Korea.

As a result of this expansion in our exports which is still going on, the deficit in our international payments during the first nine months of the Korean campaign probably changed into a small surplus during the second quarter of 1951. This surplus has apparently grown larger during the current third quarter.

What about the future? Obviously we are entering a phase of the defense economy in which our trade relationships with foreign countries will be no longer characterized first by a run on available goods and then an almost equally abrupt stoppage of purchases while inventories are being worked off. Does the return to more or less pre-Korean trade relationships—except in respect to non-ferrous metals, steel, and military equipment—mean a re-emergence of the dollar shortage problem?

As always, the situation is likely to differ from continent to continent and from country to country. Take Continental Western Europe, for example. In the past two years, ECA aid from the United States (plus the conditional sterling credits to EPU) were sufficient to offset the trade deficit and permit substantial addition of gold and dollars to Western European reserves. Although these countries will receive considerable assistance for defense under the MDAP Program, ECA aid will be cut sharply.

Not Enough Export Goods

Moreover, despite a great expansion of their productive activities, the countries of Western Europe apparently will *not have enough goods for export* to pay for (1) the additional cost of their imports, (2) increased raw material requirements needed in their defense programs, and (3) greater imports of food stuffs and consumer goods to satisfy the mounting purchasing power of their populace. At any rate, these countries are bound to need our assistance. in overcoming the bottlenecks in their steel and coal production.

As a matter of fact, our coal exports, already at a high level, are expected to set new post-war records. It is estimated that the tonnage likely to be exported this year will be about twice as large as in 1950, when some 26 million tons of coal were shipped abroad. With the second largest U.S. cotton crop on record to be harvested, European purchases of our cotton, abnormally low during the past season, are also bound to increase.

All this is likely to mean that during the coming months Western European nations will be dipping into their reserves of gold and dollars either to pay for increased imports from the United States or from countries producing raw material and foodstuff surpluses. As will be seen from the second table, these reserves are roughly $500 million larger than they were prior to September 1949 devaluations, but none too comfortable, with the exception of Switzerland and Belgium. There was already a considerable decline in Italian and Dutch dollar holdings. It may be mentioned in this connection that the free market for French francs, Italian lire, and Dutch guilders is currently near the lowest points recorded since September 1949.

The deficit in our trade with Latin America of nearly $400 million from July 1950 to March 1951, changed into an export surplus of about $80 million during the second quarter of 1951. It remains to be seen, however, to what extent Latin America will draw on its gold and dollar reserves, which as of last June stood at around $3.6 billion, about $800 million up from September 1949. Considering the price changes, the volume of our imports from Latin America is now actually below the pre-Korean level and is unlikely to drop much more. On the other hand, our exports of non-essentials and consumer goods to Latin America will probably fall off in view of large inventories there. However, our exports of machinery, tools, industrial raw materials (steel) and chemicals should increase, particularly as some of these items are likely to be unobtainable in Europe.

However, Great Britain, which is faced with a serious deterioration of her balance of payments as a consequence of a rise in prices and stepped-up defense expenditures, wants the overseas sterling area countries to use the dollar and gold reserves cautiously. Doubtless Chancellor Gaitskell is urging patience and cooperation at the Washington Conference of the Commonwealth Financial Ministers. Adds the London Financial Times: "Britain could hardly accept an assessment based on its relatively favorable eco-past."

With or without heavy orders from the overseas sterling area countries, the immediate prospects point to maintenance of our exports around the present level of about $16 billion a year. If this rate is maintained, the year 1951 is likely to be our best export year. The record year thus far was 1947, during which $15.3 billion of American goods were exported.

The New Boom In Machine Tools

(*Continued from page* 669)

reality, a composite of many different trades manufacturing a very considerable variety of products which are quite dissimilar in nature and use. Most companies in this field are not large, many in fact are medium- or small-sized.

Aside from several miscellaneous classifications there are four main branches: 1) power-generating machinery, 2) construction and conveying machinery, 3) well-digging and pumping equipment, and 4) power-driven metal working machinery. There is another small but highly important group, that makes steel mill equipment. From the investor's point of view, it is more convenient to think of these groups as being manufacturers either of heavy industrial machinery or of machine tools, the other subdivisions falling more or less into these two classifications.

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It must be remembered that the

(*Please turn to page* 688)

machine tool group is speculative and subject to wide market swings. Thus Niles-Bement-Pond sold as low as 9⅜ last year against a current price of about 19. National Acme, despite a good earnings record in recent years, fluctuated from a low of 23 last year to a high of 35⅝ in 1951, the current price.

Of the miscellaneous machinery group, substantial increases in net income are expected for the following: American Machine & Foundry, Bucyrus-Erie, Fairbanks, Morse, Greenfield Tap & Die and Joy Manufacturing. These stocks have recently attracted attention with publication of their first half-year reports, and indications are that, despite the inroads of higher taxes, they will end the current year with net income in excess of last year. The position of Joy Manufacturing is especially interesting because of its close relationship to the coal industry which takes about 65% of the company's output. The coal industry to-day going through a revolutionary process of mechanization. In 1948, the company introduced a continuous mining machine which has found an important market among the coal companies, and will benefit strongly from the fundamental need of the coal industry for machinery of this type.

The two steel equipment companies, Mesta and United Engineering, merit attention. Plans of the Office of Defense Mobilization call for building up steel capacity to 117 million tons by early 1953, from currently about 106 million tons. This means capacity operations for the two steel engineering firms which make practically all the equipment in use in this country and, to a very large extent, abroad.

Both companies have long records of achievement and are run by exceptionally capable managements. Mesta Machine, for which earnings for the first half of 1951, are not yet available, has shown remarkable steadiness of earnings, its record being $5.03 per share in 1948, $5.30 in 1949 and $5.60 in 1950. The company has been identified in recent years especially with the construction and erection of continuous rolling mills for production of sheet and strip steel. Modernization of methods of steel production has resulted in increasing demand for these products from all the large steel corporations.

United Engineering & Foundry has similarly exhibited remarkably steady earnings at high levels during recent years with the following record: $6.08 per share in 1948, $6.83 in 1949 and $6.39 in 1950. Earnings for the first half of 1951 showed a decline, due to higher taxes. The company's products are more diversified than Mesta's, consisting not only of heavy equipment for the steel industry but also of specialized equipment for the paper, rubber and plastics industries, to mention but a few.

From the investment standpoint, it must be considered that with very few exceptions, such as those mentioned previously, stocks in the machinery group are extremely speculative and are normally to be avoided by those who require a degree of stability in their investment portfolios. It is true that the present situation is favorable and that conditions in the industry are likely to continue this way for at least another year. However, the group has gone a long way toward discounting this. One should, of course, add that most companies in the field are liberal with dividends in good periods, and it is to be expected that last year's substantial rates will be exceeded this year.

Six Stocks Behind The Market

(Continued from page 657)

the stock has shown no weakness, illustrating the confidence of investors in the longer-range future.

United Aircraft has sold in a comparatively restricted range since the beginning of this year with a high of 34¼ and a low of 26⅝, adjusted for the 20% stock dividend paid earlier this year, and is now selling at about 32. Normally one might consider that this price about adequately discounts indicated 1951 earnings of about $4 a share, except that it does not take into account the enormous volume of orders and equivalent rise in sales and deliveries which will probably continue until the end of 1953, at least, based on the Government's program for aircraft expansion. Even thereafter, fairly heavy aircraft business is bound to continue. At the end of June ,United Aircraft's order backlog was $1,185 million compared with $310 million a year ago, and at the present rate of increase, will reach $1,500 million within a few months.

United Aircraft's earnings have been mounting steadily in the past few months. Despite handicaps in re-tooling and material shortages, earnings after the 20% stock dividend rose to $3.74 a share in 1950 against $2.68 in 1947. During World War II, earnings averaged $4.78 a share and it is more than likely that such earnings will be reached during the next two or three years, as incoming

business is now beginning to reach World War II figures.

The company is still faced with re-tooling problems and the shortage of aluminum, caused by the 7-weeks strike at Aluminum Co. of America's Cleveland plant, and it will take a few months longer before full operations can be attained. However, these problems are in process of being solved. United Aircraft stock has naturally been held back by these circumstances but seems bound to reflect the definite prospects for higher earnings over the longer-range period ahead. On an indicated dividend of $2 a share, the yield is somewhat better than 6%.

Is The Boom Tapering Off in the Paper Industry?

(*Continued from page* 674)

axe of years past, there now looms the spectre of a shortage of pulpwood. Also, defense demands on the chemical industry have created a tight supply in chemicals required for the paper-making process. One of the most important ingredients in paper manufacture is sulphur and since this has countless industrial uses, the pressure on sulphur creates a problem of no mean proportions.

Since they are planning well beyond the current emergency period, officials of the paper industry want to avoid over-expansion of production capacity. It's pretty clear that should the industry be able to reach the point where all customers could be taken care of at all times, defense requirements notwithstanding, there would then exist excess capacity in "normal" times. This condition would probably result in intense competition and an unstable price structure, both of which the industry would like to prevent.

About twice as much paper is made today as compared to eleven years ago but this still isn't enough to fill all demands immediately. However, the industry views the desirable need for expansion from the standpoint of per capita use. In 1939, per capita consumption amounted to 243.7 pounds. This advanced to 331.9 pounds in 1949 and is now estimated at 381 pounds per person. Paper men do not feel that per capita consumption can rise very greatly beyond this point and therefore argue that their expansion should only keep pace with the increase in population. This is a fairly conservative approach to a vital problem but also a realistic one in the light of past experience. Doubtless it also takes into consideration the industry's normal growth factor stemming from constant widening of the use of paper and paper products.

Of course, the moderate expansion contemplated for the current year does not mean that every division of the industry will increase its facilities proportionately, particularly since different companies concentrate on varying products. As an example, the only major manufacturers specializing in only one type of paper are Scott Paper and A. P. W. Paper, both of which concentrate on tissues and absorbent papers. On the other hand, the giant International Paper Company produces ten different major items including woodpulp, newsprint, bags and wrapping papers, paperboard, fibre containers, rotogravure papers, magazine and book papers, bond and ledger papers, tissue and absorbent papers, and paper specialties. Thus, defense needs and public demand affect each paper firm in a different manner.

Newsprint is a good example of this. Important newsprint producers include Crown Zellerbach, Great Northern Paper, International Paper, Minnesota & Ontario Paper and St. Regis Paper. Quite contrary to the 'Thirties, when there was a newsprint glut, there has been a shortage since World War II. The American newspaper industry not only absorbs the domestic supply but depends vitally on foreign sources, notably Canadian, most of which it has contracted for, so that ten nations have complained that they're not able to get sufficient newsprint. These countries claim that the situation is so serious that world allocations of supplies are the only answer and they have appealed to the International Materials Conference for the drafting of such a plan. Of course, the only way the newsprint supply can be shared is by reducing the American supply. Newsprint prices have been as low as $35 per ton in the long past but now, after being boosted three times this year, they stand around $116 to $117 per ton. Any sharing of

(*Please turn to page* 690)

The Paper Industry

(*Continued from page* 689)

world newsprint supplies may mean still higher prices eventually, and for those American producers of newsprint, the tightening supply cannot help but be reflected in larger profits sooner or later.

Price Increases

The tight supply problem for paper products as a whole fathered general price increases during 1950 but these were not fully reflected in industry profits until the first half of this year. The accompanying table shows that in the majority of cases, earnings for the first six months are running at rates which would place full-year earnings markedly over 1950's results. However, in the latter part of the first half, net profit margins began to shade downward slightly in reflection of wage increases and higher material costs which could not be passed along to consumers because of the prevailing ceiling price regulations. Nonetheless, all things considered, net margins have been well maintained and earnings were good for this year's first half.

The remaining months of 1951, however, are another matter. The tax hike now being considered would make it difficult for many paper companies to duplicate 1950's results, even taking into account the favorable first half, especially since there exists the possibility that the tax increases might be retroactive to the beginning of the year. On the other hand, the industry has a relatively favorable EPT position which may ameliorate tax impacts on that score.

At current prices indicated in the appended table, the average paper stock is selling near the year's high or about 25 per cent above the 1951 lows. Even so, this is hardly an exaggerated market appraisal in terms of price-earnings ratios and prospective profit potentials, though on a yield basis, many shares appear adequately valued, some commanding a distinct premium for their growth factor. In capitalizing paper company earnings, the market is doubtless aware that profits can hardly be lifted much more, in the majority of cases, under prospective tax conditions, and there are always imponderabilities in cost factors, demand trends etc. that cannot be fully evaluated.

Recent Market Action

The trend of retail trade, for instance, has a direct bearing on paper sales and because of recently lagging retail sales and rising paper inventories, paper stocks have been lagging somewhat behind the general market of late. This may be a temporary condition but it has to be taken into account in investment considerations. On the other hand newsprint concerns, because of the special conditions prevailing in their field, should realize large and very satisfactory profits this year and beyond, despite higher taxes.

This illustrates the fact that as in all big industries, prospects are not always identical for all components even though these may be subject to the larger factors affecting the industry in general. In the paper field particularly, this calls for individual rather than general appraisal. Container makers and manufacturers of paper specialties should benefit from a long term growth trend which particularly in the case of the latter finds reflection is a relatively moderate yield under today's market conditions.

But by and large, paper companies will have a good year and face fairly bright prospect from an earnings standpoint. Moreover, the normally volative character of their business is presently minimized by indications of high and fairly stable demand in the foreseeable future, and over the longer term by a sensible approach to the problem of capacity expansion. It is questionable whether the extreme peaks and valleys of the past will be seen again in the future, a prospect that tends to enhance the stature of the equities of leading paper concerns.

New Market Leaders In The Making

(*Continued from page* 651)

post-defense civilian-goods vacuum to be filled. We aim to have enough of both guns and butter within not more than another two to three years. We may have more guns than we need within a shorter time than many now imagine, barring global war; and at whatever time we reach that point we will have over-capacity in civilian, as well as arms, industries, implying basic pressure on manufacturing profit margins.

We conclude that the market as a whole is fairly high, but not extremely so. This does not rule out further advance; and it obviously does not rule out a corrective sell-off, whether soon or some weeks hence. That and foreign uncertainties justify maintenance of substantial reserve buying power. Otherwise, at this higher market level, selective portfolio adjustments are even more in order than heretofore. The investor may think in terms of "the averages", but he must act in terms of stock groups and individual issues therein. When it comes down to that, some are very high, measured in prevailing dividend yield and on the best possible earnings for an extended time to come; others less so. Where particularly large profits exist, as is so in such advanced groups as chemicals, drugs, oils, paper, tires and others, we recommend cashing a goodly portion of

them—preferably enough to write off the cost of the original investment. You cannot lose any of the original capital after that adjustment, and you still retain a position on which there can be additional profit if the already high stocks advance still further. The proceeds of such sales should be held available for later buying opportunities to be cited elsewhere in our pages as such opportunities develop.

—Monday, September 17

Super Boom in Aircrafts

(*Continued from page* 672)

might expect to receive in this company's operations over the near term.

In the case of Douglas, which has commercial orders running into the millions, there may be slightly greater reason for visualizing substantial non-renegotiable profits that would assure stability of dividends. Although commercial orders probably represent no more than 10 per cent of the total backlog approximating $1,150 million, or about $960 a share, it would seem reasonable to count on sufficient earnings from civilian customers to assure results comparing favorably with an average of more than $5 a share in recent years. Unfilled orders of both of these companies have expanded almost four-fold since the Korean incident.

Pressure for even greater expenditures on aircraft received impetus recently from secret testimony before a Senate subcommittee considering defense appropriations. Military experts outlined at this hearing requirements for greatly enlarged air power to deliver "fantastic new secret weapons" described by officials as "even more startling than germ warfare." Although no light was shed on probable types of planes needed in this development, it was suggested that they might be exceptionally fast cargo carriers. In any event, the subcommittee recommended earmarking an additional $5,000 million for this project.

Announcement of this program appears to constitute a preliminary phase of the Defense Department's "reappraisal of the world situation" scheduled for formal release in October. The Pentagon is expected to indicate in the next few weeks in considerable detail what is needed to meet full requirements. Washington commentators expect to see air power emphasized in this report.

Thus even though no one knows exactly what representative manufacturers are likely to achieve in the way of earnings, these could be substantial and investors may view shares of leading aircraft companies more favorably in the light of prospective expansion. The need for greatly enlarged expenditures is appreciated if one considers rising costs of modern planes. Ten years ago, for example, our largest bomber, the Boeing B-17, is believed to have cost the Government quite a little less than $200,000. But military requirements dictated greater speed and a larger craft, so that the B-29 which came into use toward the end of World War II probably cost close to $650,000 each. Now the Air Force depends primarily on the super-bomber B-36 capable of carrying huge loads for great distances, and it is estimated this bomber costs as much as $3.5 million. But still more costly bombers are being readied for the military forces. The newest design costs about $6 million.

Fighters have experienced even greater proportionate price hikes. North American Aviation's P-51 Mustang fighter, one of the popular World War II planes, was produced at approximately $26,700 for the body of the plane, while today's all-weather F-86 had a manufacturing cost early this year of about $179,300. Similarly, engineering and tooling costs have jumped ten to twenty times those prevailing at beginning of the recent war. Equipment costs also have skyrocketed in reflecting greater requirements as well as higher manufacturing skills. Bombing calculators used as standard equipment in modern military craft are expensive—ranging in cost from $250,000 upward.

Although no one knows, of course, to what extent our aircraft manufacturing facilities will be expanded and utilized over coming years, it is apparent that regardless of what occurs in international affairs, there is little likelihood of curtailing production of companies regularly engaged in producing airframes and engines. All indications point to a build-up in the Air Force to well over 100 groups, which would require in normal times a steady replace-

(*Please turn to page* 692)

Super Boom in Aircrafts

(*Continued from page* 691)

ment demand of several thousand planes annually. A group, or "wing," is a unit of virtually identical planes used for the same purpose—bombing, fighters used for ground support or other missions. A bomber wing usually consists of about 30 units, while a fighter group may require four score planes. Accordingly, an enlargement of the Air Force to 150 groups would mean the addition of many new planes, but the number would depend on the composition of various wings that might be designated.

In the prospective expansion of our aerial fighting forces, virtually all major factors in the industry are likely to be offered contracts sufficient to keep manufacturing facilities fully occupied. Many companies advise their stockholders periodically of the volume of business on hand even though considerable information as to types of orders is regarded as restricted information. On the basis of such reports, it is apparent that representative companies have backlogs that virtually assure capacity production well into 1953 and probably longer. From this situation it might be assumed that the average company would experience a sharp improvement in earnings.

In the aircraft industry, however, earnings projections may prove difficult to fulfill because of unforeseen problems. Moreover, interim statements frequently are misleading in that profit margins are usually negligible in early stages of contracts and contemplated profits usually are realized only toward completion of projects. Accordingly, appraisals of aircraft stocks based on currently reported earnings and dividends are not always dependable, for profit trends may vary widely in a relatively short period of time.

Even in the case of Douglas Aircraft Co., the leading producer of commercial planes, earnings scarcely could be regarded as stable. From a deficit of $1.79 a share in 1947 profits recovered in 1948 to $4.86 a share, and in that same year the first quarter showed a profit of 2 cents a share, while the last quarter jumped to $3.24 a share. Projections of this year's results are hazardous even though it seems apparent that results for the first nine months ended August 31 may have ranged between $4.50 and $5.50 a share.

Optimists are anticipating net profit in excess of the $6.01 a share reported for the fiscal year ended November 30. Firm unfilled orders as of July 1 totaled almost $786.8 million, of which about 14 per cent represented civilian business. In addition, letters of intent had been received calling for military planes and the consolidated backlog was estimated to have approximated $1,150 million. If deliveries meet present schedules, it is estimated that sales in the year about to close may approximate $250 million.

Development Costs

The restrictive effect on earnings of development costs in the early stages of military contracts is illustrated in the case of Boeing, which reported net profit for the first six months of 1951 at $2.85 a share, compared with $5.51 in the corresponding period of 1950. Results in the June quarter a year ago jumped to $4.23 a share in reflecting large deliveries, while this year earnings amounted to only $1.82 a share for the same three months.

In the absence of official information on recent deliveries, it is difficult to project earnings for Consolidated Vultee Aircraft, which has experienced an encouraging recovery in the last two or three years. Net profit for the nine months ended August 31 may have ranged above the $2.40 a share reported for the corresponding period of 1950, and indications point to sales for the year exceeding the 1950 total of almost $256 million. Such a showing might raise hope of earnings comparing favorably with last year's $4.36 a share. Management has indicated its intention of maintaining a regular 35-cent quarterly dividend.

With pressure being brought to bear in Washington to speed the Navy's air defense program, Grumman Aircraft Engineering stands to benefit from increased volume, for this company has been an important supplier of naval planes. Sales increased about 64 per cent in the first quarter and may range as much as 100 per cent greater for the full year as shipments gain momentum. Volume in 1950 came to about $102 million. Unfilled orders, including military business authorized by letters of intent, approximated $700 million at last reports. As the company is regarded as one of the most efficient in the industry, with costs as low as any known, profit margins are expected to prove satisfactory.

Although interim results may suggest some decline in 1951 results, as compared with $3.12 a share for 1950, an acceleration of deliveries may lift net profit for the year to more than $3 a share and raise hope of dividend distributions for the year to more than the $2 a share paid in 1950. Management has not established a dividend pattern, so that estimates in this respect are hazardous, but it is generally expected that another payment for the second half of the year will be approved.

As one of the largest and most diversified of aircraft suppliers, United Aircraft promises to fare well in the armament program. (See also discussion elsewhere in this issue). Aside from the Pratt & Whitney division which produces a variety of reciprocating engines for commercial and military aircraft, this company is a leading maker of propellers and its Sikorsky division is one of the important manufacturers of helicopters, while its Chance-Vought division supplies the Navy with fighter planes.

A major expansion points to greatly enlarged sales, which may approximate $400 million for the year. Net profit for the first six months came to $1.77 a share, compared with $1.82 for the corresponding period of 1950, and full year's results are expected to compare favorably with the $3.73 a share of 1950. Ample coverage should be provided for the $2 annual dividend, and it would be reasonable to look forward to another modest stock dividend in the next year or two if a high rate of operations continues well into 1952.

For Profit and Income

(*Continued from page* 677)

bulk of earnings and paying frequent stock dividends, which are non-taxable, and only a modest cash dividend. The pending further boost in income taxes figures to make investment preferences for

(*Please turn to page* 694)

For Profit and Income

(*Continued from page* 695)

this stock even stronger. The plowback and stock dividend policy provides the most nearly foolproof formula for long-term capital gain that is available in the stock market. Selling around 82 now, on estimated 1951 net of around $6.50 a share, and yielding only a little over 1.2½ on the $1 cash dividend, Sun looks high, as superficially compared with many other oil stocks. But here is the proof of the pudding: if you had bought 100 shares of Sun at its 1929 high, your investment would have been $1,875; you would now have about 450 shares, as a result of 17 stock dividends, ranging from 3% to 16%, and of one six-for-five split; and the market value would be $36,900, an appreciation of more than 1,860%. No other major oil stock has equalled that record. Incidentally, the modest $1 dividend, applied to the hypothetical 1929 investment cited, would be providing a current yield of more than 23%. Sun will no doubt pay another stock dividend, perhaps 10% more, this year. In seven years 1944-1950 there were six stock payments of 10% each, plus the 1947 six-for-five split.

Non-Ferrous Metals

(*Continued from page* 670)

At this writing labor strikes are butting their heads against the Taft-Hartley Law and in the long-run labor costs may be pushed up. Nevertheless, the higher cost pattern for the industry would probably only be used as a potent argument for increased ceiling prices and these arguments would be supported by the mute evidence of declining imports and higher world market prices. It doesn't look as though the Government can hold out indefinitely on action to increase domestic ceiling prices and this may readily balance out higher cost items such as rising taxes and wages.

Current problems revolve particularly around the copper supply, tightest of all. Domestic production of copper from mines and scrap has run about 88,000 tons monthly so far and at that rate this year's copper supply would amount to about 1,056,000 tons or 1,688 tons less than last year's production of 1,057,688 tons from the same sources. This evident lack in production expansion is made even worse by the fact that imports are off sharply, in the first half of this year totaling only 246,108 tons, a drop of 24.9 per cent from last year.

The already bad supply situation is worsened by the fact that a minimum of 10,000 tons of production has been lost as a result of a strike at the Garfield Smelter and additionally three days production had already been lost before President Truman invoked the Taft-Hartley Law in the Kennecott strike. The supply situation has become so acute that the Government has authorized the release of up to 25,000 tons of copper from its stockpile in order to make up for strike losses. Some 10,000 tons has already gone to industry to help alleviate the situation but all copper so released must be replaced in the stockpile by June 30, 1952, unless it is deemed contrary to defense interests. Thus the copper supply situation has deteriorated considerably as a result of irresponsible strikes.

This acute copper supply situation has occurred in the face of a demand which some quarters of the industry describe as "fantastic." Up to this point, defense copper requirements have absorbed only about 12 per cent of available supplies but as the tempo of defense will be stepped up, defense demand will absorb about 20% of the supplies by the end of the year. At the 20% defense-allocated level plus about 10,000 tons shipped per month to the stockpile, it is estimated that roughly 82,000 tons of copper will remain for civilian use and this is well below the monthly consumption average of the post-World War II years.

In times of a free economy, tight supply in the face of huge demand would automatically find reflection in rising prices. However, copper prices are frozen at $0.24½ per pound while foreign copper prices have ranged upward to $0.40 per pound. This inequitable situation was recognized in a semi-official way when the State Department recently granted Chile 3 cents more per pound, bringing the delivered price to $0.27½ per pound. However, to this date, the Office of Price Stabilization remains adamant, holding the domestic sales price to $0.24½ per pound. It does not appear reasonable that the OPS can long continue this stand because of the Chilean exception and also due to the fact that the United States is currently participating in the International Materials Conference under which, among other things, agreement is sought on international copper allocations. This would be attempted by the establishment of ceiling and floor prices for copper in the world market and it is highly probable that the foreign producers will not accede to the low U. S. ceiling. Thus, the copper picture points to profits limited only by the ability to produce, combined with possible higher selling prices, a relatively sheltered tax position, and a rising cost structure on the other hand.

The copper industry will probably make a limited degree of progress in increasing production but it will only be a "drop in the bucket" when compared to soaring demand for the red metal. Sales are set to make a new industry record and net profit margins, on the whole, should hold their own or increase. Generous extra dividends will be the pattern throughout the industry. As earnings rise, further market appreciation for the copper stocks is a distinct possibility. The continued holding of good grade copper shares appears advisable and for those speculatively inclined, the lower grade issues offer good appreciation possibilities.

The Lead Situation

The acute problems of the copper industry are in strong contrast with an encouraging situation prevailing in the lead industry. Expansion already approved will add another 35,000 tons to lead supplies annually. At this rate of production, the industry expects that by the 1954 target date, supplies will be in virtual balance with defense-stimulated demand. Some quarters believe that even now the supply situation is less acute than pictured, indicating that recent demand reflected anticipatory buying rather than actual needs.

In the face of a domestic ceiling of 17 cents a pound, prices for European lead are beginning to soften. A month ago foreign lead was quoted at $0.27½ per pound, and recently at $0.25 per pound. This seems to indicate that foreign holders have given up hope

that the U. S. Government will go into the lead market and buy at the higher world price for subsequent sale to lead users at domestic ceiling prices. It is pointed out that the Atomic Energy Commission requires large amounts of the metal for new plant construction but, on the other hand, cut-backs in such areas as building and automobiles considerably lessens lead demand. That the Government is going along with this view is shown by the fact the lead is not currently placed under the Controlled Materials Plan and that although its inclusion was to have occurred August 1 and has been put off until September 1, there could be further deferment of the step unless hostilities broaden considerably.

Examining the companies engaged in lead production, it may be generally said that higher prices this year and larger operations will result in better profits. Where ore reserves are adequate and mining operations are not of a high-cost nature, lead shares may be profitably held. St. Joseph Lead, accounting for one-third of the industry's production is attractive for long-term holding.

Short Zinc Supply

No parallel to the lead supply situation can be found in the case of zinc. Zinc is under complete allocation control and there is apparently no relief anticipated, since military requirements are scheduled to increase 50 per cent during the current half year.

The pressure on zinc supplies stems from the fact that, along with copper, it is one of the components of brass making and is also required by the iron and steel industry which uses it to galvanize and rust-proof steel sheets, wire, tubes, pipes, bolts, screws and many other items. The only hope for adequately meeting demand thus arising, lies in the expansion of new mine production and best estimates see 1953 as the earliest moment of demand-supply balance.

Dominance in zinc production is shared by four companies, American Zinc, Lead & Smelting, (largest smelter and refiner), Eagle-Picher (zinc-lead producer and fabricator), Hudson Bay Mining & Smelting (zinc-copper deposits) and New Jersey Zinc (largest domestic zinc producer). Examining these companies, listed in the accompanying tabulation, it will be noted that sales are showing some improvement; and so have profit margins. Despite the continuation of impressive demand for zinc, however, the relative inflexibility of production will limit gains in earnings this year, and the impact of taxes, in fact, is likely to reduce 1951 profits as compared with 1950 results.

The story of one of our lightest non-ferrous metals, aluminum, which vies with magnesium and newly-created titanium for both lightness and strength, is largely the story of three companies, Aluminum Company of America, Reynolds Metals and Kaiser Aluminum & Chemical. But a newcomer, Harvey Machine Company, is knocking at the door of the lucrative aluminum industry. The latter firm is sponsored through a $46 million loan from the Defense Production Administration, whose idea is to increase both aluminum production and competition.

Boost in Aluminum Output

The defense agencies presently want to increase aluminum production by 240,000 tons or one-third of existing capacity but they have found a stumbling block in the Justice Department's Anti-Trust Division which doesn't want the Aluminum Company of America to grow any larger but desires that the new capacity go to Reynolds and Kaiser only. This reluctance of the Government to permit expansion of the dominant aluminum producer is holding up expansion. While the Government is encouraging entrants into the field, the new candidates eventually find that their product would have to be sold at as much as four cents per pound higher than the established companies.

Meanwhile demand for aluminum is increasing in direct proportion to the mounting preparedness effort, pyramided on top of heavy essential civilian demand and annual stockpiling requirements of 300 million pounds over the next five years. The over-all expansion program, when it finally get downs to business, visualizes a 68 per cent increase in production or the addition of 1,050 million pounds per year to aluminum production capacity. Cost factors indicate that those companies which were in the aluminum business during the last war will be able to maintain their competitive position and that other competitors, now coming into the indusry, will be high-cost producers who may find the going rather difficult under normal conditions.

Current operations in the industry are encouraging with production for this year's first half the highest since 1944 and 18 per cent above last year's initial six months. This high production tempo is reflected in the sales totals shown in the accompanying tabulation. It is also of interest to observe that, despite higher taxes, net profit margins are being held steady, on the average, and that earnings on the whole are likely to be slightly better this year than they were in 1950. We think that all of the "Big Three" of the aluminum industry will benefit under present conditions and it also appears probable that, after the current emergency is past, the civilian economy will be able to absorb readily their expanded output. Aluminum Company has appeal as the old-line company; Kaiser and Reynolds have distinct growth possibilities.

Heavy Demand for Nickel

While the story of aluminum is that of industry domination by three companies, in nickel production the entire industry is "just one company" – International Nickel Company of Canada, Ltd., producer of 80 per cent of the world's supply. Our defense program has immensely tightened the supply situation, normally posing no problem. Nickel is required as an alloy agent to harden gun barrels and armor plate; it is also highly necessary for production of jet engines, so much in fact that even if all available nickel were diverted to this use, it would still be necessary to develop substitutes (such as titanium) to meet defense program quotas on jet engines by 1953.

Naturally under such a demand pattern, the outlook for International Nickel is bound to be impressive. Examination of statistical data as shown in our table indicates a substantial upward trend in sales and a distinct improvement in the net profit margin, pointing to a fairly sizeable gain in earnings for this year. Apart from its leading position nickel, the company is also a heavy producer of copper, platinum, gold and silver, among others.

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